

Report of a Diagnostic Workshop
Conducted with the Customs Administration of
The Republic of Armenia

Barents Group

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Section 1: Diagnostic Workshop on the Customs Administration of the Republic of Armenia, Conducted from March 20 to March 31, 2000.

1.1 Background

On March 20, 2000, a team of international Customs experts on contract with the United States Agency for International Development (USAID) convened a two week Diagnostic Workshop on the performance of the Customs Administration of the Republic of Armenia. The team consisted of:

- Alan Morley, Team Leader and Former Senior Official of Canadian Customs
- Manuel Henriques, Senior Official of Canadian Customs
- Michael Lane, Former Senior Official of United States Customs

An integral member of the Workshop was Mr. Arthur Dunlop, long-term advisor to the Armenian Customs Administration from the British Know How Fund. Mr. Dunlop was an invaluable resource to the team over the four weeks: scheduling and participating in fact-finding interviews in advance of the Workshop, and contributing extensively during the Workshop itself. In many instances Mr. Dunlop was able to put into perspective the specific issues that the Customs Administration of the Republic of Armenia must deal with.

The purpose of this Diagnostic Workshop was to:

- Determine the expectations of the Government of Armenia from Armenian Customs
- Identify issues, problems, and challenges in meeting those expectations
- Develop a work plan with Customs buy-in that will identify solutions, costs, and timeframes to improve the performance of Armenian Customs
- Ensure that the plan is consistent with all international Customs standards.

1.2 Methodology

During the week preceding the Workshop, the team conducted fact finding interviews with numerous officials and organizations both in and out of government who are familiar with Customs and have a stake in the performance of Customs. Included in these meetings and interviews were the following:

- Importers
- Exporters
- Customs Brokers, Freight Forwarders and Carriers
- Airport Authority
- Other Government Agencies and officials including the Ministries of State Revenues, Finance, Agriculture, Industry and Trade, and Standards Institute
- Non Governmental Organizations
- United Nations Conference on Trade and Development
- Business Organizations
- Senior Customs Officials in Headquarters, at Customs Houses and at Entry Points.

The team also reviewed Customs operations at Zvartnots airport and the Customs examining warehouse in Yerevan, the land border crossing at Bagratashen and the rail crossing at Ayrum and other Customs operations in Shirak, Gyumri and Vanadzor-

The Workshop was opened by Head of Customs Grigor Melkumyan who emphasized the importance of the Workshop to Customs and the nation and encouraged active participation of all attendees. This was followed by comments from Alan Morley, the USAID team leader who explained the purpose of the Workshop, outlined the schedule, and discussed the methodology. Mr. Morley echoed Mr. Melkumyan's comments and emphasized that this was Customs' Workshop and that the team of facilitators were not here to instruct or propose solutions but to support the participants in their efforts to improve the administration of Customs in Armenia.

The Workshop was attended by senior officials of Customs from Headquarters, the Customs Houses, and Entry Points throughout the nation. Senior officials from other departments of the Ministry of State Revenues such as Training, Anti Smuggling, Investigations, Information Technology, and Statistics also actively participated. A complete list of Workshop participants is provided in Appendix 1 -

The Workshop itself was conducted in two parts (a schedule is attached as Appendix 2). Week one was devoted exclusively to an analysis of the current state of Customs. There were detailed discussions of problems from the perspective of industry, other agencies that Customs works with in the import/export process, and high government officials with an interest in trade and investment in Armenia. There was a frank and open discussion of those problems and issues, as well as other problems identified by the Customs representatives themselves.

In order to encourage participation of all Workshop attendees there was extensive use of breakout groups to identify, discuss, categorize, and find the root causes and impact of problems.

one problem of major significance emerged from all discussions by participants as well as the pre conference interviews with industry and government stockholders. This was the lack of transparency and uniformity and the absence of a defined and documented import/export process. This was identified as the source of many of the other problems facing government and business.

in view of the significance of the definition of a well defined import/export process to both government officials and business, week one was concluded by the Customs participants flow charting the import and export processes from beginning to end with all intervening Customs and other agency requirements. This represented the first time that the import and export process had been fully documented by Armenian Customs. The flow charts developed by the Customs breakout groups were to be used as a foundation in the second week of the Workshop as a tool for identifying overlaps and redundancies in the processes as well as weaknesses that might result in revenue losses or other violations of Armenian laws at international borders.

Week two was devoted to identifying solutions to the problems uncovered in week one and for developing a plan and strategy for modernizing Armenian Customs into a world class Customs organization and a model for the region. Included in these plans and solutions would be tools, techniques, and processes employed successfully by other Customs Administrations around the world.

1.3 **Perspective on Armenian Customs**

Armenian Customs was established on June 4, 1992 and recently organized into the Ministry of State Revenues along with Tax Administration. The relatively recent creation of Armenian Customs must be taken into consideration in evaluating its performance. In most countries of the world, Customs is a senior organization having been established for decades or centuries. Armenian Customs is an evolving organization and therefore most individuals and organizations who were interviewed took that into consideration in making their observations on Customs performance.

Many of those interviewed emphasized that Customs had made and continues to make progress and improvements. The Red/Green system at the Yerevan Airport and the developing risk management system employed at the Araratian Customs House were frequently cited examples of Customs progress.

1.4 **importance of Customs**

In this era of globalization, the development and prosperity of nations is tied to their ability to compete in the international marketplace. The southeast Asian "miracle" nations built their economies largely on export led growth. Economies with closed markets and protectionist policies are being left behind. One of the biggest and most frequently mentioned barriers to the growth of trade are Customs practices that are slow, antiquated, and inconsistent with international standards.

In addition to development and growth, globalization brings with it problems of transnational crime, trafficking in narcotics and other contraband, and other threats to health and safety of a nation. In these areas, too, Customs has major responsibilities for protecting the borders and the well being of the nation. Customs plays an important role in the collection of foreign trade statistics.

In almost all of our interviews these vital responsibilities of Customs were discussed and emphasized by business and government officials alike. Unfortunately, for the most part, these officials and business representatives agreed that Customs performance in achieving its mission and goals of protecting the revenue, enforcing Armenian laws at the border, and facilitating legitimate import and export trade was not adequate. Many also believed that these deficiencies would have a negative impact on the economy of Armenia and make it a less desirable location for trade and direct foreign investment.

At the same time, all were in agreement that Customs was not adequately funded, trained, or equipped to carry out its important services to the government and people of Armenia.

This disconnect between the consensus on the important role of Customs and the failure or inability of the government to provide the necessary support and resources to achieve its mission is one of the team's most significant findings. As an agency that provides these important services and accounts for approximately 40% of government revenues it could reasonably be expected to be a high level government priority.

Without the political will and support necessary to fund, equip, and train Customs it will only be possible to make marginal improvements in Customs performance.

in addition to the issues outlined above, our interviews with importers, exporters, carriers, Customs and other government agencies identified a number of other problems and issues with the import and export processes in Armenia. Many of these problems involve other agencies of the government. Some are within the power of Customs to resolve, others will require the intervention of the Minister of State Revenues, some may require legislation, funding or the support of donor nations or financial institutions. A listing of the problems that were identified is provided in Section three of this report.

Section 2: Current Status of the Customs Administration of the Republic of Armenia

2.1 History

The Armenian Customs Administration was founded in January 1992, by Presidential Decree. In August 1999, the Customs and Tax administrations were amalgamated to form the Ministry of State Revenues.

2.2 Organizational Structure

See Appendix 3.

2.3 Geography

The Republic of Armenia has borders with four countries - the Islamic Republic of Iran to the south, Turkey to the west, Georgia to the north and Azerbaijan to the south-west and to the east.

The length of the Armenian - Iranian state border is 40 km, and along the borderline flows the river Arax which is impassable for people and vehicles. The only accessible point is the bridge in Meghri where Meghri Customs point is stationed. The whole borderline is controllable and as a state border is protected very well. Border control is carried out by the Border Guard forces and is quite effective. The main automobile road linking Meghri Customs Point with the north of Armenia passes by Syunik Regional Customs House. The total length of the Meghri - Syunik road is 50-60 km. The road stretches along high mountainous regions because of which it is very difficult to pass especially in winter and sometimes it is not passable.

The length of the Armenian - Turkish state border is about 650 km. The border is currently closed. River Arax flows along the border. The border is controlled by the Border Guard forces. Once the border is opened, there will be road crossings at Markara and Akhurik. The road through Markara is easy to traverse due to the fact that it is along Ararat plain and there will be great traffic as soon as the Customs point starts to function. This point is fairly close to the capital of Armenia - Yerevan - approximately 40 km.

Apart from the road crossings there is one railway line which will pass through Akhurik Customs Point

The length of the Armenian - Georgian state border is 150 km. There are the following border points: Bavra, Gogavan, Privolnoye, Airum, Jiliza and Bagratashen Customs Points. Only Airum is a railway crossing, all the rest are road crossings. The Georgian border is porous: there is no natural hindrance like a river flowing along the State border passing through Privolnoye, Bavra, Gogavan, Airum and Jiliza. Instead there are many automobile roads which are not easily passable, but still there is a potential danger for smuggling goods into the country. River Debed stretches along the State border in the area of Bagratashen CP which is in some places accessible to people and technical equipment.

The roads in Privolnoye and Jiliza CP are in quite a mountainous area and they are not asphalted properly. In winter it causes problems for trucks and in fact the roads are closed. The roads into the country through Bagratashen, Gogavan and Bavra are in a comparatively good state.

The length of the Armenia - Azerbaijan state border is 650 km. The border is currently closed.

A map of Armenia showing the existing Customs sites is presented in Appendix 4

2.4 Number of Staff by Location and Division

There are 703 officials working in the Customs Administration. Of these, 52 people are working in the central office or Headquarters, 252 people at the Customs houses and 399 at the Customs Points.

2.5 Salary Structure

At headquarters, the base monthly salaries are broken down as follows (at time of drafting the report, the exchange rate was \$1 USD - 525 Drams):

Head of Department / Division	35,000 Drams
Deputy	30,000 Drams
Chief Inspector	28,000 Drams
Senior inspector	25,000 Drams
Inspector	22,000 Drams

At the Customs houses, the base monthly salaries are:

Head of Customs house	34,200 Drams
Deputy	29,900 Drams
Head of TIR (in-transit division)	25,650 Drams
Head of Division	22,800 Drams
Deputy	20,400 Drams
Head of Sub-Division	19,800 Drams
Senior Inspector	16,800 Drams
Inspector	16,500 Drams

At the Customs points, the base monthly salaries are:

Head of Customs Point	25,650 Drams
Deputy of Chief	22,800 Drams
Head of Shift	18,600 Drams
Senior Inspector	16,800 Drams
Inspector	16,500 Drams

The Customs officers get additional financing from a residual fund which is derived from the Customs user fees and the Ministerial portion of tax investigations bonuses. The Headquarters officials receive their base salary plus a supplement of three times the base salary, although the supplement is subject to a performance review which could mean a salary range of only the base salary for poor performance to base salary plus four times base salary for exceptional performance. Customs house and Customs points officials receive their base salary plus a supplement of twice the base salary. There is no performance pay component.

Customs officials in the Republic of Armenia have significant and extensive higher education backgrounds.

2.6 Other Points of Interest

The Armenian Customs Administration became a member of the World Customs Organization in July 1992.

The Customs automated system from UNCTAD, ASYCUDA++, was introduced in 1996. ASYCUDA++ has been used by the Ministry of State Revenues since 1997 and now covers close to 80% of the goods entering the country.

Importers are segregated, for Customs clearance processes, into two categories: legal entities and physical persons. A legal entity is normally a company or commercial interest who is registered with the Government. A physical person is normally a non-commercial interest, or casual importer. It may also be a commercial importer who imports goods within his or her exemption, or does not need to be registered with the Government if his total volume of sales is below a threshold amount.

Duty rates for goods entering the Republic of Armenia are either 0% or 1 0%.

The value-added tax (VAT) of 20% is also collected on all importations for physical persons when they exceed or are not entitled to their personal exemption.

Currently, the exemption allows for the duty and tax-free entry of \$500 USD and under 50 kg worth of merchandise per physical person, foreign or national, entering Armenia. The exemption does not account for any purchases made abroad which the physical person wears on their persons when presenting themselves upon arrival to the Customs official. These goods must be void of any pricing labels and used by the physical person while abroad.

Legal entities do not have any exemptions. However, if the goods they are importing have 0% duty (includes most foodstuffs, raw materials), the VAT is not collected at the time of importation.

Legal entities account for 80% of the goods imported into the Republic of Armenia, and 20% by physical persons. The volume that physical persons import within their personal exemptions have been considered to be extensive, but are not officially tracked or incorporated into the figures above.

Customs conducts a great deal of its work on behalf of other government departments including transportation, health, agriculture and environment. Some 3,000 different items require testing prior to Customs clearance for free circulation in the Republic of Armenia.

The Customs Administration accounts for 40% of all revenues collected by the Government of Armenia.

Persons entering the Republic of Armenia through Zvartnots airport no longer require a written declaration when duties and taxes are not owed.

Customs also collects, over and above any duties and taxes owing, customs fees for importations calculated using the weight of the importation. These customs fees for 1999 were over 1.2 billion Drams.

In 1999, there have been 21 smuggling cases in which Customs has pursued criminal sanctions. There were 1337 cases in which administrative fines were imposed amounting to 375 million Drams.

Entry Volumes:

In 1999, there were just over 18,000 commercial entries for goods entering the Republic of Armenia.

Over 450,000 passengers entered the Republic of Armenia in 1999; and over 430,000 passengers leaving for the same time period.

The number of trucks released by Customs in 1999:

	Arriving	Departing	Total
Foreign	19,607	18,645	38,252
Armenian	4,789	4,192	8,981

Armenia is not a signatory to the World Customs Organization's Kyoto Convention.

The Armenian Customs Administration has used the World Customs Organization's Harmonized Description and Coding System for the classification of goods since December 9, 1994.

Section 3: Results from Interviews from the First Week's Entry Mission

Prior to the **Workshop Diagnostic**, the facilitators participated in a number of interviews of a wide-range of clients, partners and stockholders of the Republic of Armenia's Customs Service. A complete listing of the individuals and organizations that were consulted is provided as Appendix 5. The following is a consolidation of their viewpoints:

- There was a strong belief that the Ministry of State Revenues, and the Customs Service in particular, lacked the necessary transparency in their required processes which made it difficult for the trading community to comply with the relevant laws, regulations and Customs procedures. There was a lack of clarity in knowing what procedures, certificates, regulations and similar requirements were needed during the import or export process.

There was concern over differences in procedures between different ports and Customs houses: a lack of uniformity which prevents the Armenian Customs service from achieving a greater consistency in its practices which the trading community can then rely on when making its business decisions.

Importers agreed that the practice of the Customs service to increase the value declared on the invoice or was arbitrary, without foundation, an additional source for integrity concerns and strongly believed to contradict the principles of the World Trade Organization's (WTO) Valuation Agreement. The result has been a downward spiral with industry now declaring lower values in anticipation of automatic uplifts by the Customs service.

Similarly, the poor quality and unreliability of the invoices used in the region has created a confrontational environment between the Customs service and traders.

The importation of undeclared merchandise, or smuggling, was considered a significant deterrent to a level playing field for legitimate merchants in Armenia. Conservative estimates are that close to a billion Drams in duties and taxes are lost annually.

- The Armenian Customs service categorizes importers into two basic categories: physical persons and legal entities. Physical persons are not registered and are entitled to limited, but generous, import exemptions. There was concern that the lack of control and tracking of these physical persons led to abuse of the exemptions, duties and taxes being forsaken and unfair competition for those registered legal entities importing similar goods.

Stockholders were adamant that the facilitation of trade in Armenia had to begin with the freer movement of exports - particularly locally manufactured products. There was a need for clear, consistent and simplified procedures, including certification, which encouraged rather than hampered the export process.

While considered a progressive step for Armenian Customs, the red and green self-selection channels used at the Zvartnots airport was not being fully utilized with the green channel periodically closed. There was also inadequate signage and no indication of traveler exemptions for returning residents or visitors which would provide declarants with sufficient information to comply with the Customs laws and regulations.

Importers and service providers complained that there was a physical fragmentation between the process at the border and the Customs house. A problem of nothing being finalized at the Customs point with respect to the release of the goods for free circulation.

The issue of the amount of time and effort required by the importer to clear goods was raised. This became a non-tariff barrier as many traders become frustrated with the process or seek other means, including unsanctioned payments, to expedite the clearance of their shipments.

The Ministry of State Revenues did not have an annual plan or projections for its work over an extended period such as a strategic plan covering the next three to five years.

There was inefficient and insufficient coordination between the responsibilities of the government agencies that had a presence and responsibility at the border including border patrol, Customs and the veterinarian services.

There was a perception that Customs officials did not have the necessary expertise or training in the areas of tariff classification, origin determination and valuation. The Armenian Customs service requires assistance in these three areas of Customs technical expertise to improve its foundation for uniformity of Customs formalities on a global scale.

Consistent and transparent Customs procedures are a cornerstone of international movement of goods. Customs and the trading community will only thrive if procedures are clearly defined and widely available so that both the trader and Customs official can manage transactions in a timely and efficient way (example provided of inconsistent treatment in dealing with a company's promotional material).

- Airlines expressed concern over fees being charged by Customs for the export of carpets and paintings, yet there are no regulations to validate the fee or certificate being completed at the passenger departure point.

Anecdotal incidents were raised by certain Embassies and non-governmental organizations (NGO) suggesting that standard procedures for their specialized clearance were not being followed.

- Clients and stockholders who were interviewed were sympathetic to the lack of automation available to the Armenian Customs service. Most believed that the automation of certain procedures would expedite the clearance process.

Equipment used at the Customs points and Customs houses were inadequate which resulted in additional clearance delays. Additionally, due to the limited examination tools, cargo verifications are conducted for marginal purposes including weight confirmation and piece counts.

- The Ministry of State Revenues' Customs service is relied upon for providing the country with timely and correct statistics on the various aspects of imports and exports. There is concern that insufficient care and attention is being paid by Customs to this government responsibility.

- A direct correlation exists between the complexity of the Customs process and the vulnerability for bribes. The Armenian Customs process is considered bureaucratic and inflexible, burdened by various requirements and payments for other government agencies as well as Customs' practice of adding additional procedures and decrees to the existing requirements.
- A major local beverage producer expressed his perception that there was falsification of statistics. He noted that independent research had found five times the quantity of certain beverages in the domestic market than reported from official import statistics and domestic production.

Controls between reporting at the Customs point and then at a designated Customs house was identified as an issue. There were insufficient deterrents for non-reporting or for causing a shipment of contraband goods to be off-loaded and replaced before reaching a Customs house.

Limited inter-governmental agency communication, planning and coordination left members of the trading community to fend for themselves in dealing with divergent and often overlapping requirements for importations.

Social variables impacting the Armenian Customs service include the tolerance for the payment of additional unofficial payments in order to circumvent a process or procedure, the reliance of many Armenians on the entrepreneurial structure of local markets and the acceptance of smuggled and counterfeited goods being sold at these markets.

There was a perception of corruption in the Armenian Customs service.

- A need for an internal body within the Ministry of State Revenues to implement integrity programs and monitor progress.
- It was recognized that Customs officials were inadequately compensated.

There are some barriers to optimal and natural communication links within the current organizational structure in the Ministry of State Revenues.

Facilities were regarded as poor or insufficient.

Electronic linkages, including ASYCUDA++, between the Customs points and the Customs houses were needed to facilitate the Customs clearance process. There was a perceived need to provide greater options for the trading community in moving their goods in and out of Armenia.

Interviews also revealed some positive work underway by the Armenian Customs Service which clients, partners and stockholders appreciated including:

The red and green channels at the Zvartnots airport were considered the best of the CIS countries. Importers would encourage the Ministry of State Revenues to expand these facilitative practices to the extent possible and in the immediate future.

- That the trading community has recognized that Armenia's Customs service is still very young, but has made some significant improvements over this brief period.

Though a number of stockholders and clients were only mildly aware of some of the provisions in the new proposed Customs Code, it was acknowledged as a potential vehicle to promote change and modernization.

- Customs was appreciated for its role in strengthening the economy, protecting the citizens of Armenia against risks to their health, ensuring competition, to provide a level playing field, and in collecting revenues owed to the Republic of Armenia.

Customs had an important information function for the Government and industry to provide complete statistical data on imports into and exports from Armenia.

The other government agencies who dealt directly with Customs were aware of the underlying problems affecting Customs and were sympathetic to the need and readiness for improvement and true modernization.

Use of a risk management system in determining cargo examinations at the Araratian Customs house was regarded as a significant step forward from previous 100% obligatory examinations.

Section 4: Armenian Customs Problems and their Consequences --- A Self Diagnosis

Week one was devoted to an analysis of problems in Armenian Customs and the trade environment in Armenia. This diagnosis was performed by the Armenian Customs participants in the Workshop, an important point in that Customs must first take responsibility for its problems, shortcomings, and challenges before it can take the necessary steps to address them. The starting point of the process was a review by the participants of a summary of findings and observations derived from the interviews conducted by the facilitators with importers, exporters, officials of government and other stockholders during the week previous to the start of the Workshop. The participants concluded that these findings and observations identified valid concerns, and used them as the basis upon which to conduct their analysis of problem areas facing Customs Administration in Armenia. The following summarizes the five major problems and related sub problems, and the consequences to Customs, business, and the economy of these problems, as identified by the Armenian Customs participants in the Workshop:

4.1 Lack of a uniform, simplified, well-defined, and well-documented import and export process for Customs and business to follow.

This problem has a number of related problems including the following:

- Poor facilitation of legitimate trade.
- Lack of uniformity within and among Customs entry points and Customs Houses.
- Absence of written procedures for Customs and importers and exporters which will ensure certainty in the trade process.
- Lack of publications and other media such as the Internet to disseminate information to Customs and business on import/export requirements and how to comply.
- * Absence of a comprehensive list of all forms and documents required by all government agencies to comply and complete the import/export process.
-
- Absence of publications for importers/exporters to comply with government agency forms, certificates, and processes.
- Inability of importers/exporters to comply with overly complicated procedures and no risk management or selectivity system other than at Ararat Customs House.
- An inability to measure Customs performance in facilitating trade and improving compliance.
- * Inability of importers and brokers to get timely information on the progress of their declaration.

The lack of a well defined and documented import/export process results in the imposition of an excessively laborious process to comply with Customs and other government agency requirements. There is also excessive interference with the export process that could be an engine of growth for the economy. These problems make Armenia a less desirable location for trade and direct foreign investment.

4.2 Lack of a Customs wide information framework and inadequate information technology support.

This problem has a number of interrelated problems including the following:

- Inability to communicate instantly among Headquarters, Customs Houses, and Customs points.
- ASYCUDA in place only as a stand-alone application at border points.
- Minimal or no computer application development (other than ASYCLIDA) to support operations or administration or to address enforcement and compliance problems.
- A complicated import process characterized by paper and red tape.
- A failure to make available on line to the Customs Houses and the Customs points valuation information held within the ASYCLIDA system.
- An inability to analyze quickly the valuable information in the ASYCUDA database to improve compliance and increase facilitation of honest importers and exporters.
- ability to maintain control over physical persons.
- No comprehensive information technology plan and strategy.

These problems make the import/export process unnecessarily costly and time consuming for business and result in low compliance with Customs and other agency requirements.

4.3 Lack of necessary equipment and facilities to increase compliance and improve facilitation.

This problem has a number of aspects including the following:

- Lack of, modern search equipment with which to enforce current legislation on prohibitions and restrictions.
- No definition of the equipment and facilities needed to achieve Customs mission.
- Lack of preparation to meet Customs requirements upon opening of the Turkish and Azeri borders.
- Lack of communications and other equipment related to officer safety.
- Absence of loading docks and equipment to load and unload trucks for cargo inspection quickly, safely, and without damaging the cargo.

These problems result in lengthy and costly inspections that are still inadequate to protect Customs revenues and achieve compliance with other agency laws.

4.4 Lack of training and training materials for Customs officials and the trading community

This problem has a number of inter related problems including the following:

Lack of expertise in Customs fundamentals of classification, value, procedure, and origin.
This lack of expertise leads to loss of revenue.
Lack of knowledge in Customs compliance and enforcement techniques and methodology.
ver reliance on transaction by transaction processing of goods and conveyances.

Loss of confidence in Customs on the part of honest, experienced international traders who are familiar with the worldwide import/export process.

An inability to train and transfer knowledge to importers, exporters and brokers.

Lack of knowledge of modern business practices that could be applied to make all of Customs internal and external processes more efficient and effective.

Loss of good quality staff who leave because they see no future in Customs without adequate training.

Poor training makes Customs less effective in achieving its mission of facilitating legitimate trade and ensuring compliance with Customs and other agency requirements at the borders.

4.5 Lack of compliance with Customs laws both by Customs officers and by the business community and the public, coupled with a widespread perception by the public of corruption in Customs.

This problem has a number of aspects including the following:

Smuggling of contraband at and between the entry points and mis declaration and other violations at the points of entry.

No clear definition of the various enforcement and compliance problems facing Armenia at the border.

No integrated strategy for addressing the enforcement and compliance problems.

Lack of coordination among the various elements within the Ministry of State Revenues for attacking smuggling and other violations.

Weak coordination with other agencies of the government with border protection and enforcement responsibilities.

A reactionary or fire fighting approach to enforcement problems that does not address root causes.

Multiple violations by the same individuals and organizations creating an environment of chronic non-compliance.

A vicious circle of undervaluation by importers and uplifts by Customs.

Under reporting of import and export statistics.

Low pay for Customs officers which is insufficient to deter corrupt practices.

Complicated and undefined processes that provide the opportunity for facilitation payments.

Lack of adequate resources to investigate corruption.

Insufficient emphasis on a code of conduct and values that emphasize integrity.

Lack of compliance with Customs laws results in a loss of revenue for the government and has a negative impact on legitimate importers and domestic industry putting them at a competitive disadvantage. The perception of corruption erodes confidence in the government. The reality of corruption on the part of business and Customs results in a loss of Customs revenues and the introduction into the country of smuggled and contraband goods.

Section 5: **Solutions Derived from the Diagnostic Workshop**

One of the primary principles of the Customs Diagnostic Workshop was that the participants would be empowered. With reviewing and resolving issues they believed inhibited progress towards a well-rounded and well-respected organization. Under the methodology described in section 1, and from the problems noted in section 4, a number of recommendations were agreed to by the Workshop members. These solutions were then consolidated into five themes: simplification, computerization, equipment and facilities, training, and integrity. A sixth grouping was used for recommendations of a broader nature.

The following six categories of solutions were offered as a means of becoming a modernized and reformed customs service. Attribution has been made for each recommendation, based on available information, whether the recommendation is contingent upon implementation of any other solution, who would be accountable for its accomplishment, under which timeframe, what costs are implied (\$ - limited, \$\$\$\$ - extensive) and impact on the trading community. These notations are italicized under each recommendation.

5.1 **Provision of a uniform, simplified, well defined, and well-documented import and export process for Customs and business to follow**

Considered as one of the more pressing areas for the Republic of Armenia's Customs service, the Workshop recognized that the simplification of customs procedures, for both the import and export processes, would have a positive impact on both foreign investment and compliance with laws and regulations. A detailed flow chart of the current import and export processes, comments outlining potential areas for improvement, and a set of proposed flow charts outlining simplified processes were prepared by Mr. Gevorg Saghoyan of Armenian Customs on the basis of the discussions of the Workshop. These flow charts and comments are presented as Appendix 6.

Specific recommendations identified by the Workshop participants:

Invest in management training at all levels of customs from the top-down, in planning, change management, Total Quality Management and Enforcement Problem Solving

No prerequisite; Ministry Customs and donor; Early start and continuous; \$\$, Indirect

Redesign the Customs import and export processes from end to end including other Agency requirements to develop a streamlined process to improve enforcement and facilitate legitimate trade

No prerequisite; Ministry customs with donor customs expert consultation; Immediate; \$, Significant

- Implement automated systems of customs formalities of transactions carried out by natural persons and legal entities at all customs points and customs houses
Prerequisite; Donor Medium-term; \$\$\$, Indirect

Pilot at a customs point (possibly Meghri) the capacity to offer the option to have all the customs house procedures occur at this customs point thus allowing the goods to enter the Republic of Armenia for free circulation without having to proceed to a Customs House first

Prerequisite; Donor with Ministry customs; Longer-term; \$\$\$\$; Limited

- Consolidate payment documents used at the customs point into a single form

No prerequisite; Ministry customs; Short-term; \$; Medium

- Work towards the use of a single export declaration form to replace the current multi-form requirements; particularly important for non-military goods of local manufacture

No prerequisite; Ministry customs; Medium-term; \$; Significant

Use selectivity techniques in cargo examinations as well as red and green channels for physical persons for imports by rail, air and land at all customs houses and customs points

No prerequisite; Ministry Customs with donor expert consultation; Medium to longer-term; \$\$; Significant

- Implement secondary legislation that supports risk management techniques by customs, moves away from 100% obligatory examinations of exports and imports, and does not penalize the customs inspector for using these modern customs methods

Pre-requisite; Ministry Customs; Medium-term; \$; Indirect

- Use databases to monitor frequency of exemptions used by natural persons

Pre-requisite; Ministry Customs with donor contribution; Medium-term; \$\$; Medium, significant for Bagratashen

Use databases to guide customs officials when concerns on the value declared for customs purposes arise

Pre-requisite; Donor, customs experts and Ministry Customs; Short to medium-term; \$\$; Significant

- Automate current procedures which are being performed manually, particularly calculations of customs fees, environmental payments and transportation payments

Pre-requisite; Donor, Medium-term; \$\$\$; Significant

5.2 Provision of a Customs wide information framework and adequate information technology support

The main focus of the problem identification exercise in this area was the perceived need for a computer network linking all of the Customs locations: Customs points, Customs Houses, airports, warehouses, and headquarters.

A data communication infrastructure project proposal was presented to USAID by the Ministry of State Revenues in January 2000 (attached to this report as Appendix 7) which included the linking into a computer network of some of the Customs points, but no provision has been made in this proposal to link into the network the existing

Customs offices at Erebuni Airport, Gyumri Airport, Privolnoye or Giliza, nor the Customs points that will be established upon the opening of the Turkish and Azeri borders.

As part of the solution phase of the Workshop, representatives of the Ministry of State Revenues IT division compiled a list (attached as Appendix 8) of computer equipment requirements to outfit all existing Customs sites as well as the prospective border crossings on the Turkish border (Margara and Akhurik) preparatory to linking them into a network. No provision has been made, however, to link into the network and outfit the eleven or twelve sites that would be established upon opening of the Azeri border (separate road and rail crossings in each of Kazakh, Kapan, Meghri east, Meghri west, and Yeraskh, a road crossing at Zod, and possibly the road crossing at Goris depending upon the future Customs status of Karabach).

In 1999, the IT unit in Customs prepared a proposal (attached as Appendix 9) concerning the use of satellite communications to set up a network link to all Customs points. This proposal was not pursued by the Ministry of State Revenues at the time, but given the significant prospective costs associated with adding data lines to all of the new sites that will be established upon the opening of the Turkish and Azeri borders, it may be useful to review the satellite communication proposal again to determine if it would be more cost-beneficial than the use of land lines to link sites into the network. A further benefit of a satellite communication network could be the opportunity to establish radio communication to support anti-smuggling and border patrol activities without the need to set up transmission antennas on high points of land along the border. Consideration should be given to determine if the use and the costs of the network can be shared with other government agencies.

Once a network is established to the Customs points, programming resources will be required (supplemented by foreign expertise when necessary) to develop computer applications to make best use of the enhanced capacity the network will provide to transmit, consolidate, manipulate and analyze Customs data, and as well to promote efficient computer processing of any process improvements identified as a result of the implementation of section 5.1 solutions.

Training courses will be required to be developed and delivered to Customs staff on the use of computer equipment and the various computer applications (in concert with section 5.4 solutions).

Specific recommendations identified by the Workshop participants:

Establish UNCTAD's ASYCUDA++ system (an electronic customs control and clearance program) at all customs points

No pre-requisite; Donor, Medium-term; \$\$\$; Medium

Establish landline or satellite connections between customs points, between customs points and customs houses and between customs houses

No pre-requisite; Donor, Medium to Longer-term; \$\$\$\$, Indirect and medium*

Develop software that allows the automation of current manual procedures; automate current manually completed documents (see Appendix 9)

Pre-requisite; Ministry/Customs with donor; Short-term; \$\$,- Significant

Create software and databases to track and monitor exemptions used by physical persons

No pre-requisite; *Donor with Ministry/Customs*; Short to medium-term; \$\$\$,- Significant

- Automate work at Ministry of State Revenues to create statistical analysis framework, reports and trend analysis

Pre-requisite; Ministry/Customs with *donor customs* expert, Medium-term; \$,- Indirect

5.3 **Provision of necessary equipment and facilities to increase compliance and improve facilitation**

a. Facilities

Examination warehouses are required at those border points and Customs Houses that do not currently have them (as noted in the chart on page 22), with the exception of Privolnoye and Jiliza which are seasonal crossings with very low volumes of commercial traffic which could be diverted to Bagratashen or Gogavan. A new warehouse should be provided in Bavra as well as the existing structure is inadequate. Private commercial warehouses should be leased for Customs use wherever possible, before any consideration is given to building new warehouses.

In those locations which do have a warehouse (with the exception of Zvartnots Airport cargo warehouse which is state-of-the-art), the warehouse floor is at ground level and there is no loading dock, so trucks must be unloaded or loaded by hand. A loading bay should be excavated so that trucks can be backed to a dock level with the warehouse floor to facilitate unloading and loading.

Warehouses will be required at Markara and Akhurik in anticipation of the opening of the Turkish border. It should be noted also that the Shirak Customs House will likely become very busy as soon as this border opens because of its proximity to Akhurik.

While the prospect of an early opening of the Azeri border may not be as likely as the Turkish border, consideration should be given to the Customs facilities that will be required at that time. Upon opening of the Azeri border, separate road and rail facilities including warehouses will be required to be constructed at five potentially major crossing sites (Yeraskh, Meghri west, Meghri east, Kapan and Kazakh). The crossings at Yeraskh, Meghri west and Meghri east have the potential to be particularly heavily used, as the road and rail lines through these sites were upgraded just before the end of the Soviet era and are in good condition. As well a facility will be required at one road crossing site of minor potential (Zod). An additional road crossing (at Goris) may not require a facility as it is the road access to Karabach.

b. Equipment

All existing sites require a set of basic equipment for use in conducting examinations, as detailed in the attached schedule. Anti-smuggling teams also require a set of examination equipment. Further sets of examination equipment will be required for each new site upon opening of the Turkish and Azeri borders.

Scales are required at each site to verify invoice weights and for use in the calculation of the Customs fee. Border sites require equipment by which to calculate the axle weights of trucks for use in determining the amount of the Transport Ministry fee.

None of the warehouses outside Yerevan have volumes that would warrant the provision of a forklift truck, but hand-propelled pneumatic pallet-raisers could be provided to the busier warehouses (once loading docks level with the warehouse floor have been excavated as noted above) to facilitate unloading and loading of trucks.

Specific recommendations identified by the Workshop participants:

- **A listing of the required equipment is provided under Appendix 1 0. A more thorough needs analysis is required to validate and prioritize the listing, establish a costing schedule, and schedule a plan for acquisition (see also Appendix 1 1).**

No pre-requisite; Donor, Medium and long-term; \$\$\$, Medium

Provide adequate and modern facilities at the Customs points to manage both passenger and vehicle streams of traffic

No pre-requisite; Donor, Long-term; \$\$\$, Significant

Provide to the Customs points and Customs houses adequate warehouse and examination areas

No pre-requisite; Donor, Long-term; \$\$\$\$, - Significant

Provide facilities to keep goods safe, in good condition and secure when under customs detention pending clearance by the importer or awaiting a court decision

No pre-requisite; Donor, Medium to long-term; \$\$\$; Significant

- **Provide facilities at the customs points which would be required should the borders between Armenia and Turkey and Azerbaijan open - most would require ground-up creation**

Pre-requisite; Donor, Long-term; \$\$\$\$, Significant

Provide examination tool kits including: drug testing kits, hand tools, flashlights, coveralls, uniforms for all officers, batteries, heaters, communications equipment and so on

No pre-requisite; Donor, Short-term; \$\$ - \$\$\$; Indirect to medium

Current Locations	Import/Export Volumes	Facilities	Examination Equipment
Customs Points			
Bavra	12 buses/day 12 minibus/day 120 trucks/wk 2000-3000 cars/wk	Customs building 1 truck garage	none
Gogavan	4 buses/day 4 minibus/day 40 trucks/wk 500-750 cars/wk	Customs building no warehouse	none
Privolnoye	no buses 2-3 trucks/wk 10 cars/wk no crossing in winter	Customs building no warehouse	none
Jiliza	no buses 2-3 trucks/wk 10 cars/wk no crossing in winter	Customs building no warehouse	none
Bagratashen	12 buses/day 8 minibus/day 100 trucks/day 2000 cars/wk (50 buses/100 cars to Market when open)	Customs building warehouse (ground level w/o loading dock)	none
Ayrum (rail crossing)	1 psgr train/day 45 cargo cars/day 10 rail containers/day	Customs building no warehouse	none
Meghri	4 buses/wk 100 trucks/wk 2 cars/wk	no warehouse	none
Customs Houses			
Syunick (Sissian)	25-30 trucks/day	no warehouse	none
Gugark (Vanadzor)	3 trucks/day	no warehouse	none
Stepanavan Airport	Currently closed		
Shirak (Gyumri)	2-3 trucks/day	warehouse (ground level w/o loading dock)	none
Gyumri Airport	3 flights/wk	Airport terminal	psgr X-ray/metal detector
Yerevan	50 trucks/day 35 rail cars/day 10 rail containers/day 50 air declarations/day 10 postal declarations/d	Customs building warehouse (ground level w/o loading dock)	none
Zvartnots Airport	12 flights (1000psgrs)/d	Airport terminal warehouse (state-of-the-art w/loading docks)	psgr X-ray/metal detector
Erebuni Airport	no psgr flights 2 cargo flights/wk	Airport terminal small warehouse	psgr X-ray/metal detector

Future Locations	Potential Volumes	Facilities
Turkish Border		
Markara (road)	Major	Customs building no warehouse
Akhurik (road/rail)	Major	Customs building no warehouse
Azeri Border		
Kazakh (road/rail)	Major	no facilities
Zod (road)	Minor	no facilities
Goris (road)	Access to Karabach	no facilities
Kapan (road/rail)	Major	no facilities
Meghri east (road/rail)	Major	no facilities
Meghri west (road/rail)	Major	no facilities
Yeraskh (road/rail)	Major	no facilities

Note: with the exception of Akhurik, those locations shown as having both road and rail crossings will require two separate facilities as the crossings are too far apart to be served by one facility.

5.4 Provision of training materials and training for Customs officials and the trading community

The Ministry of State Revenues has made no budget allocation for Customs training for the year 2000, and no Customs training has been delivered since May 1999. The Customs training centre has a current staff of only two people: the Director and his assistant.

No course material is available for the delivery of specialist courses in the determination of Customs value, the determination of tariff classification, or the determination of the country of origin of imported goods. These subjects have been covered only superficially in the one month overview courses given to some Customs staff prior to 1999.

The development and delivery of training courses to Customs personnel is required in the following areas:

- Customs processes and procedures(in concert with section 5.1 solutions)
- Computer applications (in concert with section 5.2 solutions)
- risk selection techniques (in concert with section 5.1 and 5.5 solutions)
- examination techniques and the use of examination equipment (in concert with section 5.3 and 5.5 solutions)
- Customs valuation (in concert with 5.5 solutions)
- tariff classification
- rules of origin
- narcotics recognition
- language training

The development and delivery of training courses and other information offerings to the general public is required in the following areas (in concert with section 5.1 solutions):

- Customs processes and procedures
- Overview of Customs valuation, tariff classification and rules of origin

The development of courses on Customs processes and procedures and Computer applications will require the input of Armenian Customs experts in addition to any foreign expertise that may be sought, as the content of these courses is specific to Armenian Customs.

The development of courses on Customs valuation, tariff classification, rules of origin, risk selection techniques, examination techniques and narcotics recognition could be undertaken by foreign expertise alone.

Personnel with the capacity to act as trainers must be identified within the Customs organization through a competitive process and seconded to the Training Centre. It is recommended that such personnel be seconded to the Training Centre as full-time trainers for specified periods so as to maintain training expertise and continuity. Once courses have been developed, the next step is to train the trainers in the effective delivery of the course material. After the trainers have been trained, delivery of training courses to Customs staff and the general public can begin.

The Training Centre has almost no training equipment. While a request for training equipment as well as other items and expenses was submitted to USAID by the Ministry of State Revenues several months ago, the Director of the Training Centre, as part of the solution phase of the Workshop, has now prepared a more realistic document focusing exclusively on the equipment needs of the Training Centre. This document is included in this report as Appendix 12.

The Training Centre currently occupies the seventh floor of the Araratian Customs House in Yerevan. The initial proposal of the equipment needs documented in the Appendix is to maintain the use of this location for training rooms, and to create dormitories for attendees from outlying locations on the ninth floor of the same building. The document later notes that it might be preferable to seek another building in Yerevan to house the Training Centre and this is recommended, as there is no room on the seventh floor to create more than the two classrooms and five smaller rooms currently

available which are insufficient to meet the training delivery needs envisaged. As well, the ninth floor of this building is not a suitable location for a dormitory as the plumbing does not work above the third floor.

The Ministry of State Revenues must establish an operating budget for the Training Centre to cover the ongoing administrative costs of the development and delivery of training courses (including travel and accommodation costs of trainees), the payment of the salaries of trainers seconded to the Training Centre, and the maintenance of training equipment.

Specific recommendations identified by the Workshop participants:

- **Establish an ongoing budget for Customs training administration**

No pre-requisite; Ministry/Customs with donor; Medium and long-term; \$\$\$; Indirect

Provide equipment, classrooms and other facilities necessary to conduct Customs training

Pre-requisite; Donor, Medium-term; \$\$\$ - \$\$\$\$; Indirect

- **Establish an extensive train-the-trainer program for Customs instructors**

No pre-requisite; Donor customs expert with the Ministry/Customs; Short-term; \$\$; Low to medium

A majority of Customs officials have yet to receive the basic inspector training - this should be provided over the next two years. Specialized training sessions, in descending order of urgency, should be given to necessary officials: valuation, classification, and origin

No pre-requisite; Donor customs expert with the Ministry/Customs; Immediate and continuous; \$\$, Medium

Encourage the use of foreign internship programs provided the individual(s) return(s) prepared to formally share the knowledge and remain with the Armenian Customs service

No pre-requisite; Donor; Short and medium term; \$\$ - \$\$\$,- Indirect to medium

Establish a consultative group which includes members from the Ministry, Customs, importers, exporters, consultants, academics, brokers and government agencies to meet bi-annually to discuss general customs issues and improvement proposals

No pre-requisite; Ministry/Customs; Short-term; \$,, Significant

Document and disseminate the newly designed import and export processes for Customs and the trade community in a variety of methods including brochures, publications, newspapers and the internet

Pre-requisite; Donor, customs expert, Ministry/Customs and Government,, Immediate and continuous; \$\$ - \$\$\$, Significant

Develop a consultation program with legitimate importers, exporters, carriers, brokers and foreign Customs advisors to participate in the redesign of the import and export processes

No pre-requisite; Ministry/Customs; Short-term; \$, Significant*

Establish a Customs newsletter, similar to the monthly messenger used by the tax inspectorate

No pre-requisite; Ministry/Customs with Donor; Immediate and continuous; \$ (cost recovery option); Significant

- Use Meghri, or another modernized customs point, to conduct "live", practical training on examination, passenger inspection, search techniques and so forth.
*Pre-requisite; Ministry/Customs with donor customs expert; Medium-term; \$ - \$\$, * Medium*

5.5 Promotion of compliance with Customs laws both by Customs officers and by the business community and the public, to counteract a widespread perception by the public of corruption in Customs.

Specific issues identified by the Workshop participants:

A. Bagratshen Market

Bagratshen is one of the major road crossings on the Georgian border, which is defined by a small river. In addition to the road bridge at which the Customs building is located, there is a smaller pedestrian bridge (12 to 14 feet wide) about 4 km east. This pedestrian bridge joins two market areas: a very large market area on the Georgian side and a smaller market area on the Armenian side. The markets operate daily.

When the markets are open, there is heavy traffic of Armenians crossing to the Georgian market to shop and bring goods back to Armenia. Local Customs officials estimated peak traffic to be in the range of 1500 - 2000 pedestrians crossing in each direction per hour. On market days, two Customs officers are stationed at the Armenian end of the bridge to take declarations. As well, buses coming from the market, the only road from which passes by the Customs building at the road crossing, have been stopped by Customs at the road crossing for inspection to determine if any undeclared goods were aboard.

This matter became of public concern several weeks ago when a convoy of 70 buses coming from the market refused to stop at the Customs building for inspection when directed to do so. The resultant public perception is that Customs is unable to control the import of goods into Armenia coming from the Georgian market at Bagratshen.

Observations:

The Armenian end of the pedestrian bridge opens into a compound approximately 200 yards wide and 50 yards deep which is completely surrounded by an 8 foot high stone wall. At the eastern end is a small warehouse building, and at the western end is a full-height steel gate which opens onto the Armenian market area. Beside this gate are several small buildings which were identified as being for Customs use. There are two other full-height steel gates along the southern portion of the wall.

Even though this compound is fully enclosed, it is currently not usable as a Customs secure area as 40 to 50 Armenian market stalls have been set up within it and the warehouse building is apparently being used to store Armenian market goods. For this

reason, Customs has been attempting to control the importation of goods into Armenia by stationing two officers at the end of the bridge itself. It would be physically impossible, however, for two Customs officers to take declarations (let alone collect the appropriate duties and taxes) from the volumes of people entering at peak times.

The practice of stopping buses coming from the market area for inspection at the main road crossing is of questionable legality or value. The buses have not left Armenia, and while it may be presumed that the passengers had left the bus to shop at the Georgian market, there is no way to prove that such is the case: a passenger might simply maintain that any goods they were carrying came from the Armenian market.

Recommendations:

Customs control over pedestrian traffic coming into Armenia from the Georgian market could be established most easily by removing the Armenian market stalls from within the enclosed compound and designating the compound as a Customs secure area. There would then be ample room for Customs to set up queue lines and turnstiles to control the crowd long enough to take declarations and collect duties and taxes before allowing re-entry into the Armenian market through the western gate, and there would be no need for Customs to inspect the buses leaving the Armenian market.

No pre-requisite; Ministry/Customs with donor; Medium to long-term; \$\$\$,- Significant

- Alternatively, if it is not considered feasible to remove the Armenian market stalls from the compound, a crowd control barrier should be erected to segregate traffic coming off the bridge into the western end of the compound to be dealt with by Customs before being allowed into the Armenian market area. This is a less effective solution, however, as the available space would be somewhat small to handle the peak volumes of traffic.

No pre-requisite; Ministry/Customs with donor; Medium to long-term; \$\$\$ - \$\$\$\$; Significant

Establishment of physical Customs control at the Bagratshen Market will be a positive step towards ensuring the collection of duties and taxes properly payable, but the legislative provisions concerning traveler's' exemptions will pose a continuing problem as they are very difficult if not impossible to enforce (see section on Legislation).

B. Legislative issues

In the course of the Workshop, the participants identified three areas in which Legislative provisions currently in force are impossible to administer or constitute a hindrance to the effective administration of Customs responsibilities.

1. Traveler's' (physical persons') exemptions

Under current legal provisions, a physical person returning to Armenia is entitled to an exemption from duties and taxes on commercial goods carried by him to a maximum of 50 kg. or US\$500. in value. This exemption may currently be used twice per month, but proposed legislation will reduce this entitlement to twice per quarter.

The administrative difficulty posed by this provision is that it is virtually impossible to track the use of the exemption to ensure that a physical person is not using the exemption more than twice per month (or in future twice per quarter). This problem is particularly evident at the Bagrateshen Market in Georgia, whose only reason for being is to serve a large Armenian clientele who shop there regularly. Even if crowd control devices are installed to establish Customs control over the site (see section on the Bagrateshen Market) so that full declarations can be taken from importers, there is no capacity available to track the information provided to identify over-use of the exemption.

This is a significant drain upon the revenues properly owing to the government. Given that 2000 or more people go to the market each market day (by extension from the numbers of buses and cars observed by Customs to go to the market), and that peak volumes of pedestrians on the bridge have been observed by Customs to approach 1500 per hour, it is likely that regular shoppers at the market make more than one trip to the Georgian market each market day for an estimated total of 3000 importations per market day.

Given duty rates of free or 1 0% and a VAT rate of 20%, the average revenues lost to the government through the fraudulent use of one exemption is US\$125. (25% of \$500). Even if only 10% of import declarations make fraudulent use of exemptions, the loss of revenue to the government represented by each market day would amount to US\$37,500. (\$125. x 300).

- The participants at the Workshop proposed that the import exemption for physical persons either be rescinded entirely, made subject to a minimum absence requirement (such as 48 hours), or reduced to a much lower value (such as \$25-00) not subject to a limitation on the number of times it may be used. Customs will thereby be in a much better position to establish physical control over the Bagrateshen Market and collect the duty and taxes properly payable to the government on importations

No pre-requisite; Government and Ministry/Customs; Long-term; \$\$ (increased revenue collections); Significant

- Alternatively, the Workshop considered the use of a database to track the frequency of usage of the exemption. Use of *smart cards* were considered along with other methods of maintaining the pace of traffic at the border crossing, while still monitoring and controlling how often individual physical persons avail themselves of the current exemption

No pre-requisite; Donor, Ministry/Customs and customs expert; Medium-term; \$\$\$ - \$\$\$\$ (cost recovery options, increased revenue collections); Significant

2. Collection of General Enforcement Information (Intelligence)

Customs Administrations around the world routinely gather and exchange general information about patterns of Customs smuggling activities as a powerful tool in the fight against smuggling. Armenian Customs is not able to collect such information, however, as the Constitution prohibits from collecting information other than with respect to a specific case in which there is a reason to suspect that smuggling has occurred. This is a significant hindrance to Armenian Customs in its efforts to identify and control smuggling activities, and a barrier to opportunities for Armenian Customs to participate in information exchanges with the Customs services of other countries.

The participants at the Workshop therefore proposed that legislation be changed to permit the reasonable collection by Armenian Customs of general enforcement information for use in the fight against smuggling. This will become of greater importance once the Turkish and Azeri borders open, given the increased likelihood that smuggling will occur

No pre-requisite; Ministry/Customs; Medium to long-term; \$,- Low to medium

3. Disposition of Forfeited Goods

Under current legislation, Customs cannot dispose of goods abandoned by importers until the Courts have issued an order. As a result, Customs may be required to store goods for months or years awaiting a decision of the Courts.

The participants at the Workshop proposed that legislation be changed to permit Customs to dispose of abandoned goods directly without the need to wait for a Court order

No pre-requisite; Ministry/Customs; Medium to long-term; \$,- Low to medium

C. Undervaluation

A problem identified by the Workshop participants is the chronic undervaluation of goods on import declarations, and the perception by Customs that invoices from many countries which export goods to Armenia (such as Georgia, Turkey and Iran) are generally unreliable.

One solution which was ratified by the Workshop participants was the implementation of a program of valuation rulings issued in advance of importation. Such rulings would be issued to large volume repetitive importers in response to the submission to Customs of sufficient information to validate the values proposed to be declared on imports as representing true transaction values or their equivalent. Once Customs is satisfied that a particular importer's values are valid, a ruling can be issued that will give certainty to the importer and eliminate the need for Customs to question the value declared upon importation

Pre-requisite; Ministry/Customs with donor customs expert; Long-term; \$\$,- Significant

A precondition for the establishment of a valuation rulings program is the establishment of a central valuation unit as a centre of expertise from which such rulings can be issued (see section on Organization Structure), and the provision of valuation training to Customs officers (see section on Training).

D. Risk Assessment

The Workshop participants noted the success of the risk assessment pilot program which has been undertaken at the Yerevan examination warehouse (see Appendix 13), and recommended that the program be expanded to all Customs Houses and Customs points as quickly as possible.

No pre-requisite; Ministry/Customs with donor customs expert; Short to medium-term; \$\$ - \$\$\$,- Significant

The participants also noted the success of the use of red/green channels at Zvartnots Airport and recommended that the use of red/green channels be expanded to other sites as well

No pre-requisite; Ministry/Customs with donor customs expert; Medium-term; \$\$ - \$\$\$; Significant

The participants noted, however, that the legal liability imposed on Customs Inspectors if a shipment they have cleared is subsequently found to have been non-compliant makes the exercise of risk assessment criteria rather than examining every shipment unduly hazardous to the Inspector.

The Workshop participants recommended that Customs Inspectors be protected from the undue application of legal liability through the development of clear instructions and standards for Inspectors to follow in the exercise of risk assessment techniques

No pre-requisite; Ministry/Customs; Medium-term; \$,- Significant

General Observations:

In order for any Customs organization to flourish, it is essential that the measures outlined in the World Customs Organization's Arusha Declaration be in place, managed and monitored to create an integrity based environment for true customs reform and modernization. The Workshop participants took ownership of this global concern and provided the following recommendations to enhance a compliance environment.

Provide Customs inspectors and other officials in the Customs organization with increased salaries

No pre-requisite; Ministry/Customs with donor; Medium to long-term; \$\$ - \$\$\$; Medium to significant

- **Employ motivational techniques and performance-related incentives**

No pre-requisite; Donor customs expert with Ministry/Customs, Short to medium-term; \$\$, Medium to significant

* **Provide Customs officials with the adequate support and regulations which provides for responsible accountability, adequate training (particularly in ethics, psychology), and clearly defined procedures and documentation for officials and traders to follow or provide**

Pre-requisite; Ministry/Customs, donor and customs expert; Medium-term; \$\$ - \$\$\$; Significant

Create a human resources division, as part of a re-organized Ministry of State Revenues with three pillars - tax, customs and administrative support, that will provide administrative management, control and support for:

- Managing the overall training needs of Customs officials and management
- Providing basic customs inspector and technical specialist training, as required, for all officials in a timely manner
- Creation and maintenance of a database to monitor the training and experience of officials in the Ministry
- Development of an on-going program to develop problem solving techniques and Total Quality Management, including the continuing periodic use of Diagnostic Workshops (outside expertise as needed)

Pre-requisite; Ministry/Customs, donor and customs expert; Medium to long-term; \$\$ - \$\$\$; Medium

Create an area within the Ministry to deal specifically with integrity issues and management accountability. It would be responsible for the development, compliance and monitoring of a Customs Code of Ethics, the development of management accountability contracts and the transparency of a process related to the management of human resources

No pre-requisite; Ministry/Customs with donor customs expert; Short to medium-term; \$,, Significant

Deliver training in practical, regionally-based, concerns including the prevalence of false or undervalued invoices, non-verbal indicators and other enforcement techniques and customs-related foreign language training

No pre-requisite; Donor customs expert with Ministry/Customs; Medium-term; \$\$,- Significant

Establish regulations that balance the Government's need to ensure integrity of Customs officials, but that officials are comfortable to be able to operate examinations on a selectivity and risk management basis without fear of disciplinary actions should an infraction with non-examined be subsequently uncovered

No pre-requisite; Ministry/Customs with Government,- Medium to long-term; \$,- Significant

- **Establish a progressive penalty structure which assigns higher penalties to repeat offences**

No prerequisite, Ministry/Customs with Government,- Medium to long term; \$,- Significant

5.6 Broader or multi-level recommendations from the Diagnostic Workshop

Additionally, the Workshop participants provided some overarching recommendations for the improvement of the Customs function in Armenia. These included changes to the current organizational structure, frequent and fluid communications and exchanges of information between the tax and Customs service and a proposal to have the activities stemming from the Workshop Diagnostic championed at the Government, Ministry, Customs and non-governmental (donor, customs advisor) level.

Organization Structure

The Workshop participants noted a concern with the current organization of Customs functions within the Ministry of State Revenues, in that Investigations, Anti-Smuggling, and Customs Operations were divided into separate parallel reporting lines which made it difficult to foster the level of communication and cooperation required to enforce Customs laws effectively and efficiently.

As well, the Workshop participants noted that there is no provision in the current organization structure for a central unit of expertise on matters of Customs Valuation, tariff classification and origin determination.

Recently the International Monetary Fund submitted a report which made organizational structure recommendations which addressed some of these concerns by creating a central Valuation and Classification unit and by bringing Investigations and Anti-Smuggling together under the Deputy Minister of Intelligence and Investigations. The Workshop participants concluded that the recommendations of the IMF report were not sufficient, however, in that Investigations/Anti-Smuggling and Customs Operations would still be divided into separate parallel reporting lines.

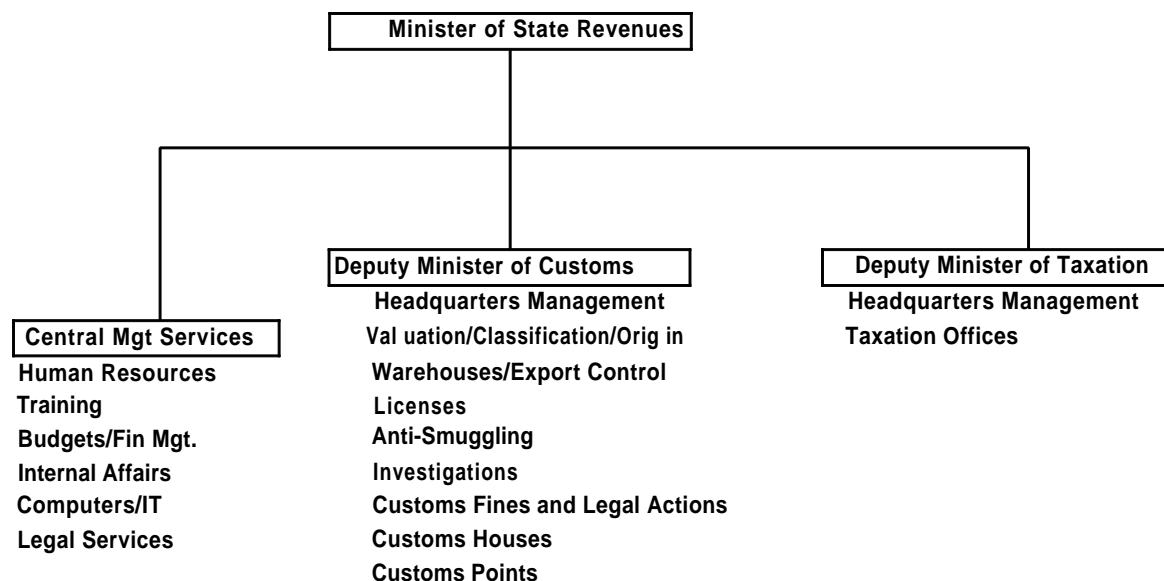
The Workshop participants concluded that the organization structure most supportive of the development of close lines of communication and cooperation necessary between Customs operations, Customs investigations and Anti-Smuggling would bring together all Customs functions under one manager. In this way, Customs responsibilities could be undertaken most efficiently and effectively

No pre-requisite; Ministry Customs; Medium to long-term; \$., Indirect to medium

The organization structure proposal developed by the Workshop participants envisages an organization responsible for all Customs functions reporting to a Deputy Minister for Customs and an organization responsible for all Tax functions reporting to a Deputy Minister for Tax, each of whom report to the Minister of State Revenues. Specifically, the Customs organization would encompass Headquarters management functions, a valuation/classification/origin unit, warehouse administration, export control, licenses, Customs investigations, Anti-Smuggling, a legal penalties unit, and all of the Customs Houses and Customs points.

Also reporting to the Minister of State Revenues would be an organization responsible for the provision of general management administrative services both to Customs and to Tax, as the Workshop participants concluded that it would be more efficient to consolidate such services rather than to duplicate them within each of Customs and Tax. Such central administrative services would be in the areas of Human Resources, Training, Budget and financial administration, an Internal Affairs Inspectorate, Computer Services and Information Technology, and general Legal services.

A graphic representation of the organization structure proposed by the Workshop participants is presented below.



Additional specific recommendations identified by the Workshop participants:

- Establish visible political will on the part of senior government officials to initiate, maintain and provide budget funding for a long-term Customs reform program

No pre-requisite; Government and Ministry/Customs with donor; Medium to long-term; \$\$\$,- Significant

Organize the Ministry of State Revenues into three main groups: Tax, Customs and Administrative support. The administrative support area would include a Human Resources Division, Information Technology, Finance and Budgeting, Planning, Facilities management and Procurement, Training, General Legal Services and Internal Affairs

No pre-requisite; Ministry/Customs; Medium to long-term; \$,- Indirect to medium

Establish a Human Resources Division responsible for standardizing officer testing (including reviewing methods used by other Customs Administrations), ensure management improvement training and literature, monitor training and experience of Ministry officials, and implement a review mechanism for officer conduct actions

No pre-requisite; Ministry/Customs with donor, Medium to long-term; \$\$,- Medium

Establish a single or multi-section area for technical expertise in origin, valuation and classification in the Customs organization

No pre-requisite; Ministry/Customs with donor customs expert; Medium to long-term; \$; Significant

Establish electronic linkages and database sharing between the Customs and tax functions to enable quick and continuous communication and intelligence links between tax and customs for audit, investigations and monitoring purposes

No pre-requisite; Donor with Ministry/Customs; Medium-term; \$\$\$, Significant

- **Establish executive level oversight of the implementation of the Workshop Diagnostic's Customs reform and modernization recommendations. The Customs Reform Steering Committee would be chaired by the Minister of State Revenues and include officials from Government, the Ministry, Customs, donor agencies and customs advisors and stakeholders**

*No pre-requisite; Government, Ministry/Customs, donor and customs expert; Short to medium-term; \$, * Significant*

Undertake the development of a plan and timetable for Customs reform and modernization to be provided to the Steering Committee in three to six months that will include milestones, dates and funding and resource requirements

No pre-requisite; Ministry/Customs with donor and customs expert; Short to medium-term; \$,- indirect, but significant

Undertake the development of a detailed and costed-out needs assessment for equipment and facilities to enable Customs to achieve its enforcement and trade facilitation objectives (including for currently non-operational customs points at the Azerbaijani and Turkish borders)

No pre-requisite; Ministry/Customs and donor customs expert; Medium-term; \$\$; Indirect to medium

- **"Benchmark" the state of Customs in the following areas to compare progress or improvements achieved three (3), five (5) and ten (10) years in the future:**

- customs formality requirements
- number of documents required for import, transit or export processes
- revenues collected
- number of violations
- time to clear goods at various stages (i.e.: customs points, customs houses, examinations)
- volume of trade
- percentage of cargo containers examined
- number of customs violations for natural persons and legal entities
- turnover rate of officials
- salary and benefits
- exports vs. imports
- foreign direct investment

*No pre-requisite; Ministry/Customs with donor customs expert, Short-term; \$ - \$\$, * Significant*

Establish an area in the Ministry dedicated to coordinating and overseeing the internal completion of requirements based on Foreign Aid programs and initiatives - a Foreign Aid and Experts Coordination Office

*No pre-requisite; Ministry/Customs with donor; Medium-term; \$, * indirect*

Section 6: Implementation Plan

6.1 Accountability for action and assignment of priorities

The Workshop participants divided the problem groups into two categories, then prioritized the problem groups within the two categories:

1. those problem groups for which Customs and the Ministry of State Revenues (or by extension the Government of Armenia) was principally responsible for implementing solutions.

first priority:	the development of uniform, simplified, well-defined, and well-documented import and export processes for Customs and business to follow (problem group one).
second priority:	the development and delivery of training to Customs officers and the general public (problem group four).
third priority:	to address lack of compliance with Customs laws both by Customs officers and by the business community and the general public (problem group five).
2. those problem groups which should be placed before the donor agencies for consideration, although the Workshop participants recognized that follow-on responsibilities would fall to Customs and the Ministry of State Revenues once the donor agencies had made any undertaking.

first priority:	computer equipment and network (problem group two).
second priority:	infrastructure and enforcement equipment (problem group three).
third priority:	training centre equipment (problem group four).

6.2 Monitoring and Coordination

The Workshop participants proposed that a Customs Reform Steering Committee be established, chaired by the Minister of State Revenues and which would include senior representation from Customs, to monitor and coordinate the actions of Customs, the Ministry of State Revenues and other government agencies in the implementation of solutions to the identified problem groups, and to act as a point of coordination with the various donor agencies who may be interested in participating.

6.3 Measurement Criteria

The Workshop participants proposed the following as measurement (benchmarking) criteria by which to assess the success of efforts to implement solutions to the identified problem groups:

- decrease in average process time for imports and exports
- increase in revenue collections
- improvements in Armenia's balance of trade (exports over imports)
- increase in the level of foreign investment in Armenia
- increase in the number of anti-smuggling cases
- decrease in Customs staff turnover
- increase in salary to Customs staff

6.4 Use of existing resources

The preparation of the Implementation Plan and the first stages of implementation will, by necessity, be carried out without the technical assistance to be provided by the donors as a result of this report. However the British Know How Fund long term Customs Advisor, Mr. Arthur Dunlop, has both the necessary contacts and the in country experience to help in this regard and we recommend that he be used in this capacity.

In particular the assistance he has provided to Customs when they introduced the Risk Assessment Project would make his participation in the expansion of the Risk Management program especially valuable. His knowledge of selectivity systems such as that operating at Zvartnots Airport would also help in the introduction of a Red/Green system at the other airports and border crossings (paragraph 5.5 (d)). Legislation will need to be introduced to allow for use of selectivity and risk assessment and Mr. Dunlop, as an experienced Customs Officer, should be in a position to give advice in drafting this legislation (paragraph 5.1 point 8).

Zvartnots Airport is often the first point of contact for prospective investors visiting Armenia in addition to being the entry point for express or valuable cargoes. We believe that Customs systems and processes at the airport should reflect the role that the airport plays in greeting visitors. We further understand that Mr. Dunlop has already made proposals that would help improve the Red / Green system, and until donors provide further assistance under this contract we consider that his assistance should be sought in further improving all the Customs formalities, systems and processes at the airport.

6.5 Implementation Schedule

Presented on the following pages is a schedule listing all of the recommendations identified, in the order in which they appear in Section 5 of this report.

The schedule identifies for each recommendation if there is a necessary pre-condition (the completion of another recommendation) before that recommendation can be implemented. The schedule also identifies the organization which will be primarily responsible for the implementation for each recommendation (Customs, the Ministry of State Revenues, the Government of Armenia, the donor agencies), the general timeframes for implementation, a cost range, and the level of impact of the recommendation on importers, exporters, and the Armenian business community.

Recommendations (presented in order from section 5)	Pre- requisite tasks	Office of primary responsibility	Time frame	Cost range	Impact on traders
1. Invest in management training at all levels of customs from the top-down, in planning, change management, Total Quality Management and Enforcement Problem Solving	No pre-requisite	Ministry/Customs and donor	Early start and continuous	\$\$	Indirect
2. Redesign the Customs import and export processes from end to end including other Agency requirements to develop a streamlined process to improve enforcement and facilitate legitimate trade	No pre-requisite	Ministry/Customs with donor customs expert consultation	Immediate	\$	Significant
3. Implement automated systems of customs formalities of transactions carried out by natural persons and legal entities at all customs points and customs houses	Pre-requisite 2, 12	Donor	Medium-term	\$\$\$	Indirect
4. Pilot at a customs point (possibly Meghri) the capacity to offer the option to have all the customs house procedures occur at this customs point thus allowing the goods to enter the Republic of Armenia for free circulation without having to proceed to a Customs House first	Pre-requisite 2,3	Donor with Ministry/Customs	Longer-term	\$\$\$\$	Limited
5. Consolidate payment documents used at the customs point into a single form	No pre-requisite	Ministry/Customs	Short-term	\$	Medium
6. Work towards the use of a single export declaration form to replace the current multi-form requirements; particularly important for non-military goods of local manufacture	No pre-requisite	Ministry/Customs	Medium-term	\$	Significant
7. Use selectivity techniques in cargo examinations as well as red and green channels for physical persons for imports by rail, air and land at all customs houses and customs points	No pre-requisite	Ministry/Customs with donor expert consultation	Medium to longer-term	\$\$	Significant
8. Implement secondary legislation that supports risk management techniques by customs, moves away from 100% obligatory examinations of exports and imports, and does not penalize the customs inspector for using these modern customs methods	Pre-requisite 2	Ministry/Customs	Medium-term	\$	Indirect
9. Use databases to monitor frequency of exemptions used by natural persons	Pre-requisite 3, 12	Ministry/Customs with donor contribution	Medium-term	\$\$	Medium, significant for Bagratashen
10. Use databases to guide customs officials when concerns on the value declared for customs purposes arise	Pre-requisite 3, 12	Donor, customs experts and Ministry/Customs	Short to medium-term	\$\$	Significant
11. Automate current procedures which are being performed manually, particularly calculations of customs fees, environmental payments and transportation payments	Pre-requisite 3, 12	Donor	Medium-term	\$\$\$	Significant
12. Establish UNCTAD's ASYCUDA++ system (an electronic customs control and clearance program) at all customs points	No pre-requisite	Donor	Medium-term	\$\$\$	Medium

Recommendations (presented in order from section 5)	Pre- requisite tasks	Office of primary responsibility	Time frame	Cost range	Impact on traders
13. Establish landline or satellite connections between customs points, between customs points and customs houses and between customs houses	No pre-requisite	Donor	Medium to Longer-term	\$\$\$\$	Indirect and medium
14. Develop software that allows the automation of current manual procedures; automate current manually completed documents	Pre-requisite 2, 12	Ministry/Customs with donor	Short-term	\$\$	Significant
15. Create software and databases to track and monitor exemptions used by physical persons	No pre-requisite	Donor with Ministry/Customs	Short to medium-term	\$\$\$	Significant
16. Automate work at Ministry of State Revenues to create statistical analysis framework, reports and trend analysis	Pre-requisite 2,3	Ministry/Customs with donor customs expert	Medium-term	\$\$	Indirect
17. A listing of required equipment is provided under Appendix 1 0. A more thorough needs analysis is required to validate and prioritize the listing, establish a costing schedule, and schedule a plan for acquisition (see also App. 1 1)	No Pre-requisite	Donor	Medium and long-term	\$\$\$	Medium
18. Provide adequate and modern facilities at the Customs points to manage both passenger and vehicle streams of traffic	No pre-requisite	Donor	Long-term	\$\$\$	Significant
19. Provide to the customs points and customs houses adequate warehouse and examination areas	No pre-requisite	Donor	Long-term	\$\$\$\$	Significant
20. Provide facilities to keep goods safe, in good condition and secure when under customs detention pending clearance by the importer or awaiting a court decision	No pre-requisite	Donor	Medium to long-term	\$\$\$	Significant
21. Provide facilities at the customs points which would be required should the borders between Armenia and Turkey and Azerbaijan open - most would require ground-up creation	Pre-requisite 59	Donor	Long-term	\$\$\$\$	Significant
22. Provide examination tool kits including: drug testing kits, hand tools, flashlights, coveralls, uniforms for all officers, batteries, heaters, communications equipment and so on	No pre-requisite	Ministry/Customs with donor	Short-term	\$\$ - \$\$\$	Indirect to medium
23. Establish an ongoing budget for Customs training administration	No pre-requisite	Ministry/Customs with donor	Medium and long-term	\$\$\$	Indirect
24. Provide equipment, classrooms and other facilities necessary to conduct Customs training	Pre-requisite 17	Donor	Medium-term	\$\$\$ - \$\$\$\$	Indirect
25. Establish an extensive train-the-trainer program for Customs instructors	No pre-requisite	Donor customs expert with the Ministry/Customs	Short-term	\$\$	Low to medium
26. A majority of Customs officials have yet to receive the basic inspector training - this should be provided over the next two years. Specialized training sessions, in descending order of urgency, should be given to necessary officials: valuation, classification, and origin	No pre-requisite	Donor customs expert with the Ministry/Customs	Immediate and continuous	\$\$	Medium

Recommendations (presented in order from section 5)	Pre- requisite tasks	Office of primary responsibility	Time frame	Cost range	Impact on traders
27. Encourage the use of foreign internship programs provided the individual(s) return(s) prepared to formally share the knowledge and remain with the Armenian Customs service	No pre-requisite	Donor	Short and medium term	\$\$ - \$\$\$	Indirect to medium
28. Establish a consultative group which includes members from the Ministry, Customs, importers, exporters, consultants, academics, brokers and government agencies to meet bi-annually to discuss general customs issues and improvement proposals	No pre-requisite	Ministry/Customs	Short-term	\$	Significant
29. Document and disseminate the newly designed import and export processes for Customs and the trade community in a variety of methods including brochures, publications, newspapers and the internet	Pre-requisite 2	Donor, customs expert, Ministry/Customs and Government	Immediate and continuous	\$\$ - \$\$\$	Significant
30. Develop a consultation program with legitimate importers, exporters, carriers, brokers and foreign Customs advisors to participate in the redesign of the import and export processes	No pre-requisite	Ministry/Customs	Short-term	\$	Significant
31. Establish a Customs newsletter, similar to the monthly messenger used by the tax inspectorate	No pre-requisite	Ministry/Customs with Donor	Immediate and continuous	\$ (cost recovery option)	Significant
32. Use Meghri, or another modernized customs point, to conduct "live", practical training on examination, passenger inspection, search techniques and so forth.	Pre-requisite 3, 17	Ministry/Customs with donor customs expert	Medium-term	\$ - \$\$	Medium
33. Customs control over pedestrian traffic coming into Armenia from the Georgian market could be established most easily by removing the Armenian market stalls from within the enclosed compound and designating the compound as a Customs secure area. There would then be ample room for Customs to set up queue lines and turnstiles to control the crowd long enough to take declarations and collect duties and taxes before allowing re-entry into the Armenian market through the western gate, and there would be no need for Customs to inspect the buses leaving the Armenian market.	No pre-requisite	Ministry/Customs with donor	Medium to long-term	\$\$\$	Significant
34. Alternatively, if it is not considered feasible to remove the Armenian market stalls from the compound, a crowd control barrier should be erected to segregate traffic coming off the bridge into the western end of the compound to be dealt with by Customs before being allowed into the Armenian market area.	No pre-requisite	Ministry/Customs with donor	Medium to long-term	\$\$\$ - \$\$\$\$	Significant

Recommendations (presented in order from section 5)	Pre- requisite tasks	Office of primary responsibility	Time frame	Cost range	Impact on traders
35. The participants at the workshop proposed that the import exemption for physical persons either be rescinded entirely, made subject to a minimum absence requirement (such as 48 hours), or reduced to a much lower value (such as \$25.00) not subject to a limitation on the number of times it may be used. Customs will thereby be in a much better position to establish physical control over the Bagrateshen Market and collect the duty and taxes properly payable to the government on importations	No Pro-requisite	Government and Ministry/Customs	Long-term	\$\$ increased revenue collections	Significant
36. Alternatively, the Workshop considered the use of a database to track the frequency of usage of the exemption. Use of smart cards were considered along with other methods of maintaining the pace of traffic at the border crossing, while still monitoring and controlling how often individual physical persons avail themselves of the current exemption	No pre-requisite	Donor, Ministry/Customs and customs expert	Medium-term	\$\$\$-\$\$\$\$ cost recovery options, increased revenue collections	Significant
37. The participants at the workshop therefore proposed that legislation be changed to permit the reasonable collection by Armenian Customs of general enforcement information for use in the fight against smuggling. This will become of greater importance once the Turkish and Azeri borders open, given the increased likelihood that smuggling will occur	No pre-requisite	Ministry/Customs	Medium to long-term	\$	Low to medium
38. The participants at the workshop proposed that legislation be changed to permit Customs to dispose of abandoned goods directly without the need to wait for a Court order	No pre-requisite	Ministry/Customs	Medium to long-term	\$	Low to medium
39. One solution which was ratified by the workshop participants was the implementation of a program of valuation rulings issued in advance of importation. Such rulings would be issued to large volume repetitive importers in response to the submission to Customs of sufficient information to validate the values proposed to be declared on imports as representing true transaction values or their equivalent. Once Customs is satisfied that a particular importer's values are valid, a ruling can be issued that will give certainty to the importer and eliminate the need for Customs to question the value declared upon importation	Pre-requisite 25,26,54	Ministry/Customs with donor customs expert	Long-term	\$\$	Significant

Recommendations (presented in order from section 5)	Pre- requisite tasks	Office of primary responsibility	Time frame	Cost range	Impact on traders
40. The workshop participants noted the success of the risk assessment pilot program which has been undertaken at the Yerevan examination warehouse, and recommended that the program be expanded to all Customs Houses and Customs points as quickly as possible	No pre-requisite	Ministry/Customs with donor customs expert	Short to medium-term	\$ - \$\$\$	Significant
41. The participants also noted the success of the use of red/green channels at Zvartnots Airport and recommended that the use of red/green channels be expanded to other sites as well	No pre-requisite	Ministry/Customs with donor customs expert	Medium-term	\$ - \$\$\$	Significant
42. The workshop participants recommended that Customs Inspectors be protected from the undue application of legal liability through the development of clear instructions and standards for Inspectors to follow in the exercise of risk assessment techniques	No pre-requisite	Ministry/Customs	Medium-term	\$	Significant
43. Provide Customs inspectors and other officials in the Customs organization with increased salaries	No pre-requisite	Ministry/Customs with donor	Medium to long-term	\$ - \$\$\$	Medium to significant
44. Employ motivational techniques and performance-related incentives	No pre-requisite	Donor customs expert with Ministry/Customs	Short to medium-term	\$	Medium to significant
45. Provide Customs officials with the adequate support and regulations which provides for responsible accountability, adequate training (particularly in ethics, psychology), and clearly defined procedures and documentation for officials and traders to follow or provide	Pre-requisite 2,25,29	Ministry/Customs, donor and customs expert	Medium-term	\$ - \$\$\$	Significant
46. Development of an on-going program to develop problem solving techniques and Total Quality Management, including the continuing periodic use of Diagnostic Workshops (outside expertise as needed)	Pre-requisite 1	Ministry/Customs, donor and customs expert	Medium to long-term	\$ - \$\$\$	Medium
47. Create an area within the Ministry to deal specifically with integrity issues and management accountability. It would be responsible for the development, compliance and monitoring of a Customs Code of Ethics, the development of management accountability contracts and the transparency of a process related to the management of human resources	No pre-requisite	Ministry/Customs with donor customs expert	Short to medium-term	\$	Significant

Recommendations (presented in order from section 5)	Pre- requisite tasks	Office of primary responsibility	Time frame	Cost range	Impact on traders
48. Deliver training in practical, regionally-based, concerns including the prevalence of false or undervalued invoices, non-verbal indicators and other enforcement techniques and customs-related foreign language training	No pre-requisite	Donor customs expert with Ministry Customs	Medium-term	\$\$	Significant
49. Establish regulations that balance the Government's need to ensure integrity of Customs officials, but that officials are comfortable to be able to operate examinations on a selectivity and risk management basis without fear of disciplinary actions should an infraction with non-examined be subsequently uncovered	No pre-requisite	Ministry Customs with Government	Medium to long-term	\$	Significant
50. Establish a progressive penalty structure to deter repeat offences	No pre-requisite	Ministry Customs with Government	Medium to long term	\$	Significant
51. The workshop participants concluded that the organization structure most supportive of the development of close lines of communication and cooperation necessary between Customs operations, Customs investigations and Anti-Smuggling would bring together all Customs functions under one manager. In this way, Customs responsibilities could be undertaken most efficiently and effectively	No pre-requisite	Ministry Customs	Medium to long-term	\$	Indirect to medium
52. Establish visible political will on the part of senior government officials to initiate, maintain and provide budget funding for a long-term Customs reform program	No pre-requisite	Government and Ministry Customs with donor	Medium to long-term	\$\$\$	Significant
53. Organize the Ministry of State Revenues into three main groups: Tax, Customs and Administrative support. The administrative support area would include a Human Resources Division, Information Technology, Finance and Budgeting, Planning, Facilities management and Procurement, Training, General Legal Services and Internal Affairs	No pre-requisite	Ministry Customs	Medium to long-term	\$	Indirect to medium
54. Establish a Human Resources Division responsible for standardizing officer testing (including reviewing methods used by other Customs administrations), ensure management improvement training and literature, monitor training and experience of Ministry officials, and implement a review mechanism for officer conduct actions	No pre-requisite	Ministry Customs with donor	Medium to long-term	\$\$	Medium

Recommendations (presented in order from section 5)	Pre- requisite tasks	Office of primary responsibility	Time frame	Cost range	Impact on traders
55. Establish a single or multi-section area for technical expertise in origin, valuation and classification in the Customs organization	No pre-requisite	Ministry/Customs with donor customs expert	Medium to long-term	\$	Significant
56. Establish electronic linkages and database sharing between the Customs and tax functions to enable quick and continuous communication and intelligence links between tax and customs for audit, investigations and monitoring purposes	No pre-requisite	Donor with Ministry/Customs	Medium-term	\$\$\$	Significant
57. Establish executive level oversight of the implementation of the Workshop Diagnostic's Customs reform and modernization recommendations. The Customs Reform Steering Committee would be chaired by the Minister of State Revenues and include officials from Government, the Ministry, Customs, donor agencies and customs advisors and stakeholders	No pre-requisite	Government, Ministry/Customs, donor and customs expert	Short to medium-term	\$	Significant
58. Undertake the development of a plan and timetable for Customs reform and modernization to be provided to the Steering Committee in three to six months that will include milestones, dates and funding and resource requirements	No pre-requisite	Ministry/Customs with donor and customs expert	Short to medium-term	\$	indirect, but significant
59. Undertake the development of a detailed and costed-out needs assessment for equipment and facilities to enable Customs to achieve its enforcement and trade facilitation objectives (including for currently non-operational customs points at the Azerbaijani and Turkish borders)	No pre-requisite	Ministry/Customs and donor customs expert	Medium-term	\$\$	Indirect to medium
60. "Benchmark" the state of Customs in the following areas to compare progress or improvements achieved three (3), five (5) and ten (10) years in the future:	No pre-requisite	Ministry/Customs with donor customs expert	Short-term	\$ - \$\$	Significant
61. Establish an area in the Ministry dedicated to coordinating and overseeing the internal completion of requirements based on Foreign Aid programs and initiatives - a Foreign Aid and Experts Coordination Office	No pre-requisite	Ministry/Customs with donor	Medium-term	\$	indirect

Appendix one

Names of Workshop Participants

LIST OF PARTICIPANTS OF CUSTOMS DIAGNOSTIC WORKSHOP
CARRIED OUT BY USAID EXPERTS
ON MARCH 20-31, 2000

Organization and Control of C/H and C/P Activities

Grigor Melkumyan	Head of Administration, Team Leader
Artur Gasparyan	Deputy Head of Administration, Acting Head of Regional Customs House in Gugarq
Tigran Sargsyan	Senior Inspector of Coordination and Control Division over Administration's Customs Authorities Operations, Team Coordinator
Murad Manvelyan	Head of Administration's Customs Statistics and Forecasting Division
David Davtyan	Head of Coordination and Control Division over Administration's Customs Authorities Operations
Albert Harutyunyan	Head of Administration's Customs Procedures Supervision Division
Armen Mejlumyan	Senior Inspector of Administration's Customs Business Improvement Division

Araratyan Regional Customs House

Grigor Avetisyan	Acting Head of Customs House
Harutyun Berakchyan	Head of Customs Point of "Zvartnots" Airport
Torgom Ghukasyan	Head of Customs Formalities Division
Askanaz Gevorgyan	Head of Enforced Collections Division
Grisha Movsisyan	Deputy Head of Customs Formalities Division
Rita Sanasaryan	Deputy Head of Enforced Collections
Garik Darbinyan	Customs Examinations Division
Serjik Aslanyan	Head of Customs Point of "Erebuni" Airport

Regional Customs House in Shirak

Gevorg Mkhitarian	Head of Customs House
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Reziona Customs House in Gu2ar

Vardan Evoyan	Deputy Head of Ayrum Customs Point
Vardan Margaryan	Deputy Head of Bagratashen Customs Point

ReLdonal customs House in Syunik

Vladimir Sargsyan	Head of Meghri Customs Point
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Department of Information Flow Re2ulation

Sergey Paturyan	Head of Department
Armen Mkrtchyan	Head of Customs Informational Division
Karen Gharibyan	Senior Specialist of Information Flow Regulation Department

Tax and Customs Mechanisms Improvement Department

Artur Mnatsakanyan	Deputy Head of International Relations Division
Gagik Qaryan	Chief Specialist of Customs Legislation Division

Department of OrEanization and Control of Redonal Tax Units Operations

Garik Kirakosyan	Head of Excisable Goods Circulation Control Department
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InvestiLration Department

Rafik Hakobyan	Investigator
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Department of StruLyLje ALYainst Smum!fin

Partev Eghiazaryan	Head of Struggle Against Drug Substances Smuggling
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LeLFal Department

Anna Avetisyan	Head of Enforced Collections
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A.Alaverdyan
Deputy Head of State
Revenue Ministry

G. Gevorgyan
Deputy Head of State
Revenue Ministry

G. Melkumyan
Head of Organization and Control
Department of C/H and C/P
Activities

1. Ara Avetisyan - Deputy Head of Coordination and Control Division of C/H and C/P Activities Organization and Control Department
2. Hasmik Khamalyan - Head of Customs Business Improvement Division of SRM Organization and Control Department of C/H and C/P Activities
3. Artyom Khamalyan - Senior Inspector of the RA State Revenue Ministry
4. Aram Alikhanyan - Head of TIR Specialized Division
5. Harutyun. Sargsyan - Senior Inspector of TIR Specialized Division
6. Mher Ulikhanyan - Inspector of Meghri Customs Point
7. Manvel Manukyan - Chief of the Shift of Meghri Customs Point
8. Naira Hovakimyan - Inspector of Regional Customs House in Syunik
9. Robert Grigoryan. - Inspector of Regional Customs House in Syunik
- I O.Minas Sahakyan - Inspector of Customs Point in Bavra
- I I.Gevorg Saghoyan - Inspector of "Zvartnots" Airport Customs Point
12. Lilit Ghazaryan - Inspector of "Zvartnots" Airport Customs Point
- 13.Kim Avetisyan - Customs Advisor of the RA State Revenue Ministry
- 14.Jirayr Aleksanyan - Deputy Head of Cargo Customs Formalities Division of Araratyan Regional Customs House

Names of Participants

Grigor' Melkumyan	Head, Customs Department
Arthur Gasparian	Head of Araratian Customs House
Tigran Sargissian	Head of Customs Procedures Control Div. Customs Department
David Davtian	Head of Customs Methodology Development Div., Customs Department
Murad Manvelian	Head of Statistics and Forecasting Div, Customs Department
Albert Haroutyunian	I-head of Organisational Inspectorate Div., Customs Department
Anna Avetisian	Head of Penalty Div. Legal Department
Torgom Ghukasian	Head of Customs Formalities Div., Araratian Customs House
Askanaz Gevorgian	Head of Penalties Division, Araratian Customs House
Grishd Movsisian	Deputy Head of Customs Formalities Division
Rita Sanasarian	Deputy Head of Penalties Division
Garik Darbinian	Checks Division
Harutjun Berakchian	Head of Customs Point, Zvartnots Airport
Serjik Aslanian	Head of Customs Point, Erebuni Airport
Armen Medglumian	Head of Asycuda Team
Arthur Mnatsakanian	Deputy Head, International Tax and Customs Relations Div., Methodology Department
Gagik Karrian	Chief Specialist Customs Legislation Div., Methodology Dept.
Garik Kirakosian	Head of Control of Excisable Goods Circulation, Tax Department
Rafik Hakobian	Chief specialist, Investigation Dept.
Partev Yeghyazarian	Head of Division for Fight Against Drugs, Anti-Smuggling Dept.
Armen Mkrtchian	Head of Customs Information Division, IT Dept.
Vardan Margarian	Deputy Head of Bagratashen Customs Point
Vardan Evoyan	Deputy Head of Airum Customs Point

Departments / Divisions Participating in the Workshop

Workshop session	Department / Division involved
I.Organisation & Management	Senior Management / Divisional Heads / Legal Department / Methodology Department / Tax Department / Araratian Customs House /
2. Human Resource Management	Senior Management / Divisional Heads / Araratian Customs House /
3. Communications	Divisional Heads / Araratian CH / Tax Department /
4. Computerisation	IT Department / Araratian CH / Divisional Heads /
5. Infrastructure & Equipment	Aararatian CH / Divisional Heads /
6. Customs laboratory	Araratian CH / Divisional Heads /
7. Border & Inland Customs	Aaratian CH / Divisional Heads / Legal Department / Methodology Department /
8. Customs Payment Collection	Araratian CH / Divisional Heads / Legal Department / Methodology Department /
9. Transit & Movement of Goods	Araratian CH / Divisional Heads / Legal Department / Methodology Department /
I 0. Anti -Smuggling & Investigation	Araratian CH / Anti-Smuggling / Investigation / Legal Department / Divisional Heads
I 1. Training	Training / Aaratian CH / Legal Department / Divisional Heads /
12. Legislation	Legal Department / Methodology Department Aararatian CH / Divisional Heads
I-3. Customs Ethics	Senior Management / Methodology Department / Araratian CH / Divisional Heads /
14. Foreign Trade Facilitation	Senior Management / Araratian CH / Methodology Department /

Appendix two

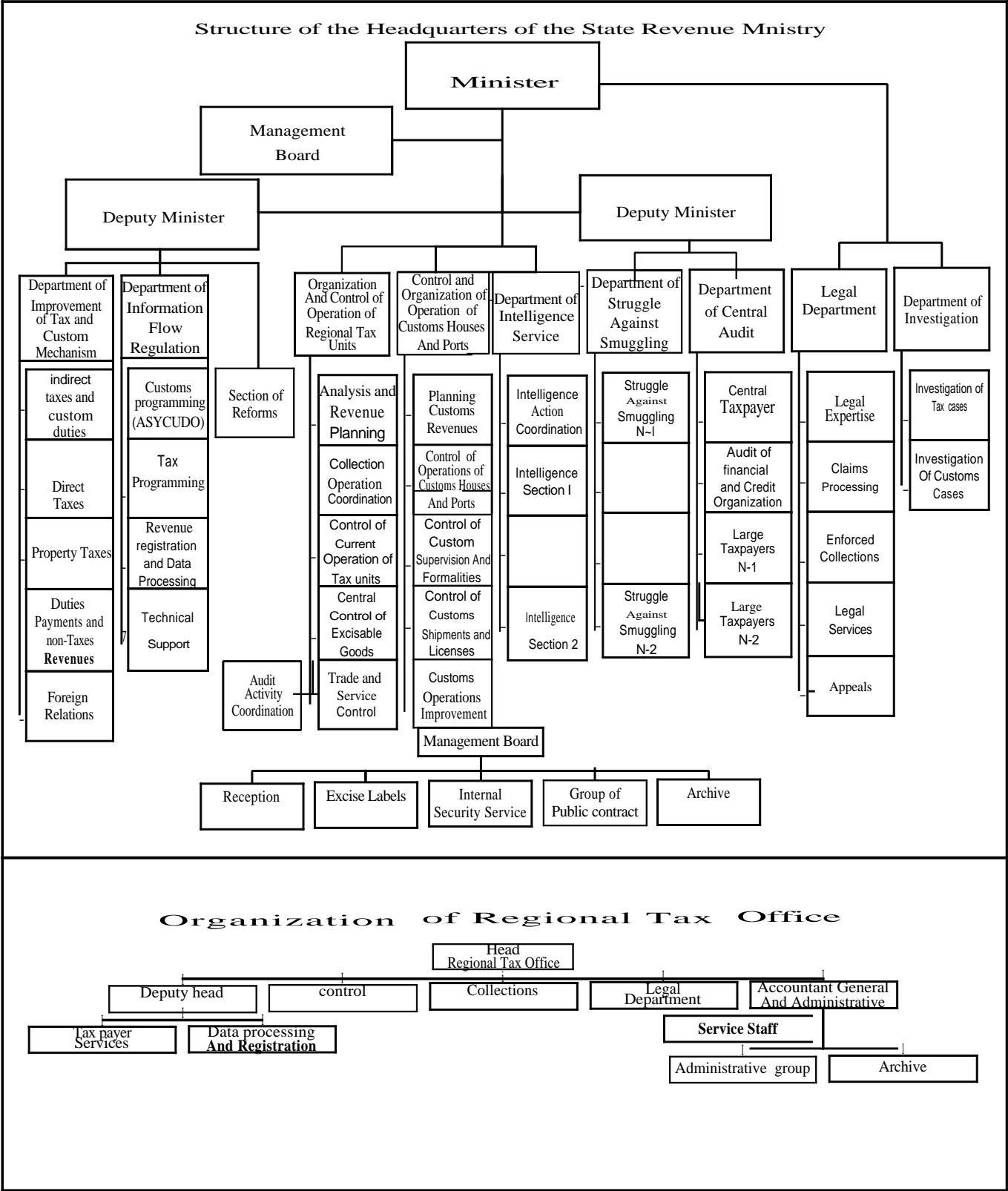
Workshop Schedule

Workshop Timetable

Monday	Tuesday	Wednesday	Thursday	Friday
20	21	22	23	
Week I Problem Identification				
	Consideration and validation of Entry Mission results	Anti-Smuggling Enforcement	Training	Development of flow charts for import and export processes
Opening Presentations- Explanation of Workshop	Discussion groups: Analysis of problems	Anti-Smuggling Enforcement	Legislation	
Lunch				
organization and Management	Discussion groups Analysis of problems	Anti-Smuggling Enforcement	Equipment/Infrastructure	Review and validation of problems identified through the week.
Organization and Management	Presentations of problem analyses by discussion groups	In-transit goods	13. Customs Ethics 14. Foreign Trade Facilitation	
27	28	29	30	31
Week 2 - Solution Finding				
Definition of and agreement on problem groupings	Computerization	Infrastructure and Equipment	Import and Export process solutions	All day Final prioritization of solutions and identification of responsibilities Steering Committee
Identification of sub-points under problem groupings	Computerization	Infrastructure and Equipment	Import and Export process solutions	
Lunch				
Problem solving techniques	Analysis of Import and Export processes	Legislation Organisation Structure	Training	
Problem solving techniques	Analysis of Import and Export processes	Human Resources	Training	

Current Organization Structure of the
Ministry of State Revenues

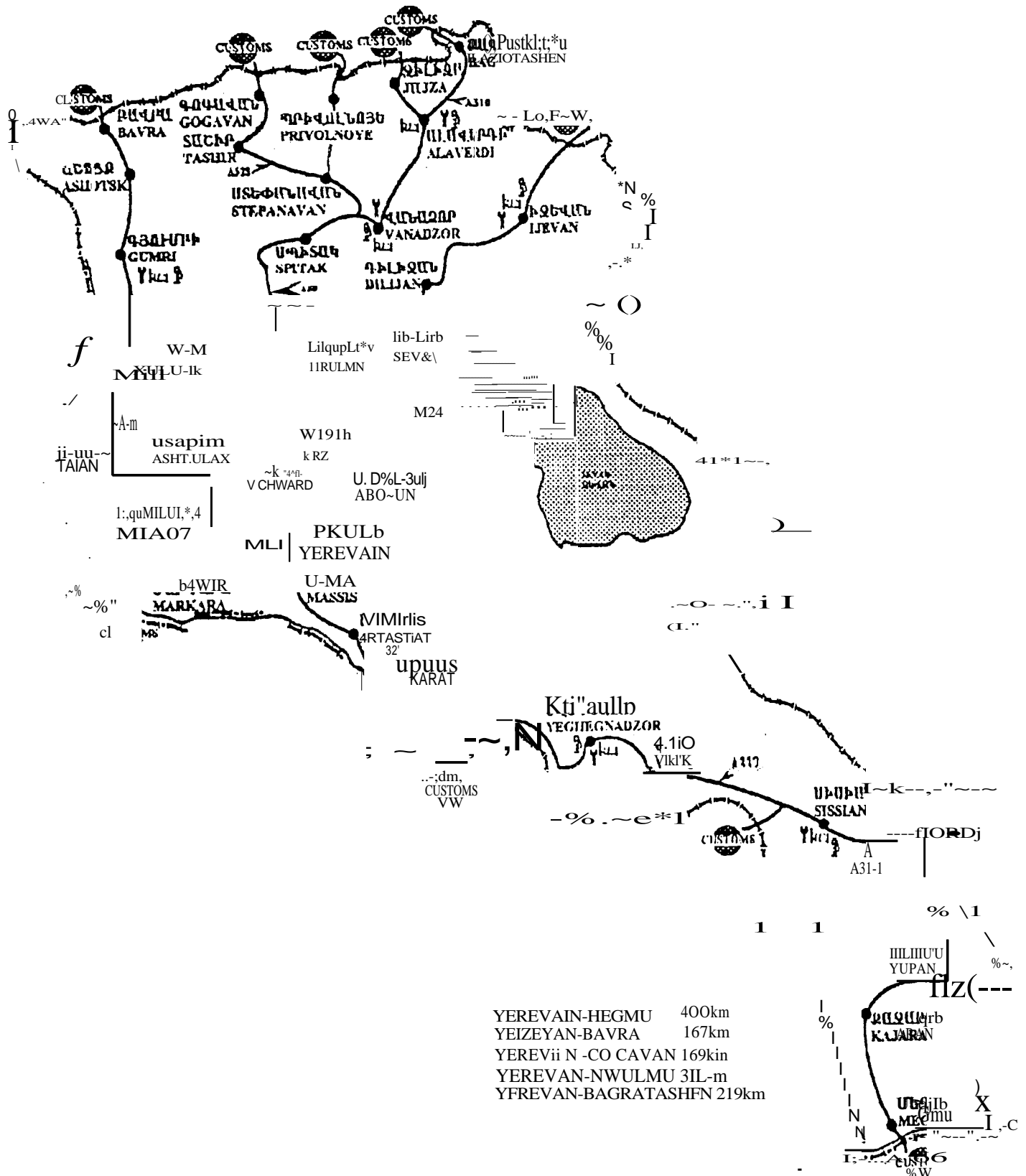
Current Organizational Structure of the MSR



Appendix four

Map of Armenia Showing Existing Customs Sites

TRANSIT AUTOMOBILE ROUTES OF THE REPUBLIC OF ARMENIA



Appendix five

List of People Interviewed During the Entry Mission Preparatory to the Workshop

Customs Diagnostic Workshop

People Interviewed by the Entry Mission Team

Ministry of State Revenues

1. Mr. Aivazian, Minister of State Revenues
2. Mr. Alaverdian, Deputy Minister of State Revenues
3. Mr. Melkumian, I lead of Customs Department
4. Mr. Avetissian, Head of Araratian Regional Customs House

Government

1. Mr. Shirkhanian Vice Prime Minister
2. Mr. Khachatryan, Chairman of Finance Committee, National Assembly
3. Mr. Yeghlasarian, Economic Advisor to the Prime Minister
4. Mr. Khachatrian, Head of Department for Inland Revenue Policy
5. Ministry of Trade & Industry, Tigran Davtian (Head of Department for Foreign Trade Policy)
6. Mr. Didyan, Deputy Head of Economic Department of Government Personnel
7. Mr. Azizian, President State Committee on Standardisation
8. Mr. Aghadganian, Head of Department for Veterinary Services and Control, Ministry of Agriculture
9. Mr. Haroutjunyan, Head of Zavnorts Airport

Industry

1. Alan Kutchukian, Managing Director KPMG Armenia
2. Trade Point Armenia, Vahram Hakobyan (Executive Director)
3. Mr. Boyle, Director of Finance & Administration, Catholic Relief Services
4. Tigran Aghabekyan, European Bank for Reconstruction and Development, (Senior Analyst)
5. Dougle Douglas (Regional Manager), British Airways
6. Innes Braendle (Station Manager), Swissair
7. American Chamber of Commerce (Committee members)

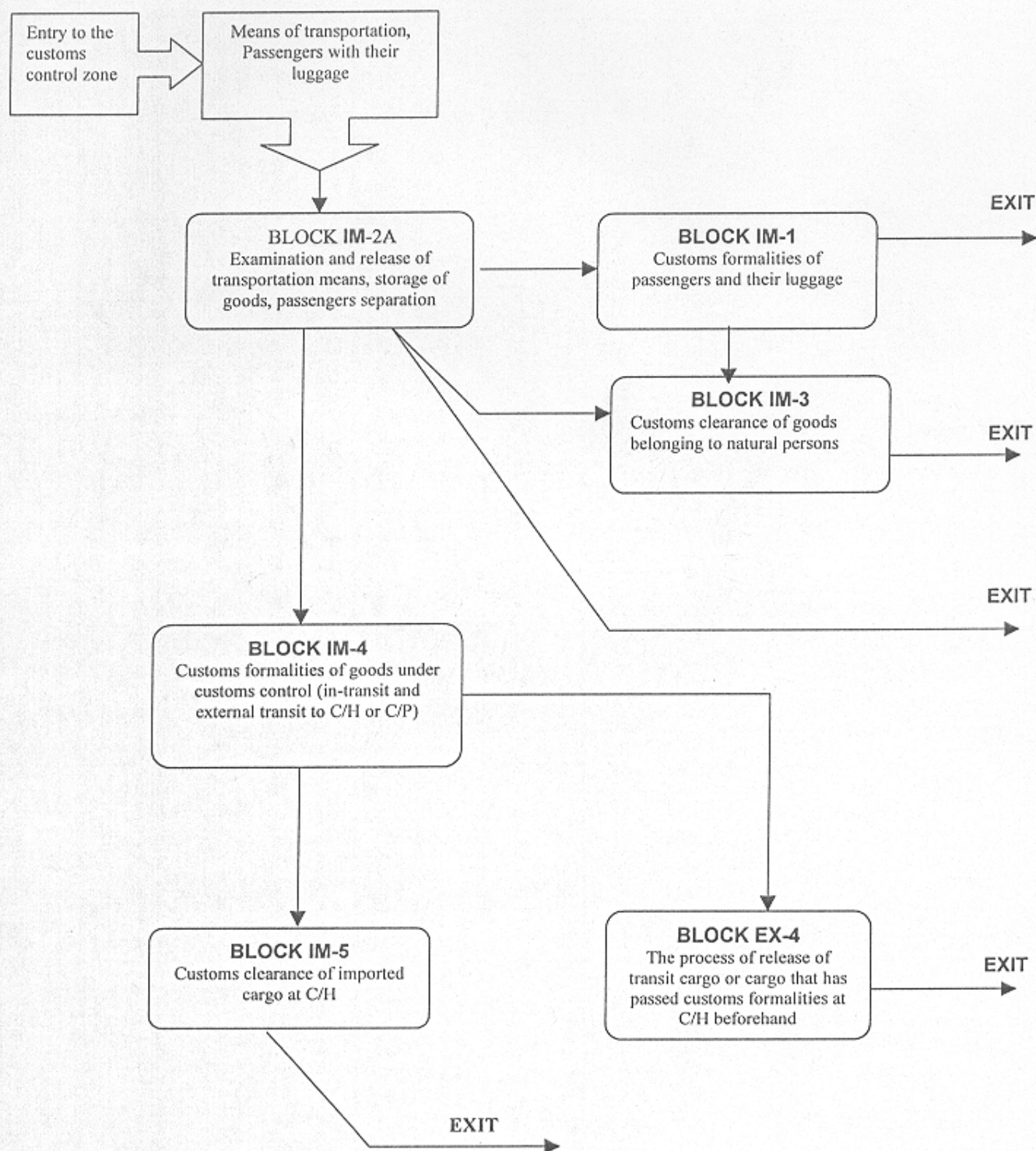
Embassies

1. British Embassy - Commercial Officer, Missak Vardanyan
2. American Embassy - Economic & Commercial Officer, Jeffery Horwitz
3. US AID
Mike Green
Fred Claps
4. US AID Contractors - Bill Gardner, Barents Group (Tax Reform)
5. German Embassy - Commercial Officer, Sabrina Schmidt

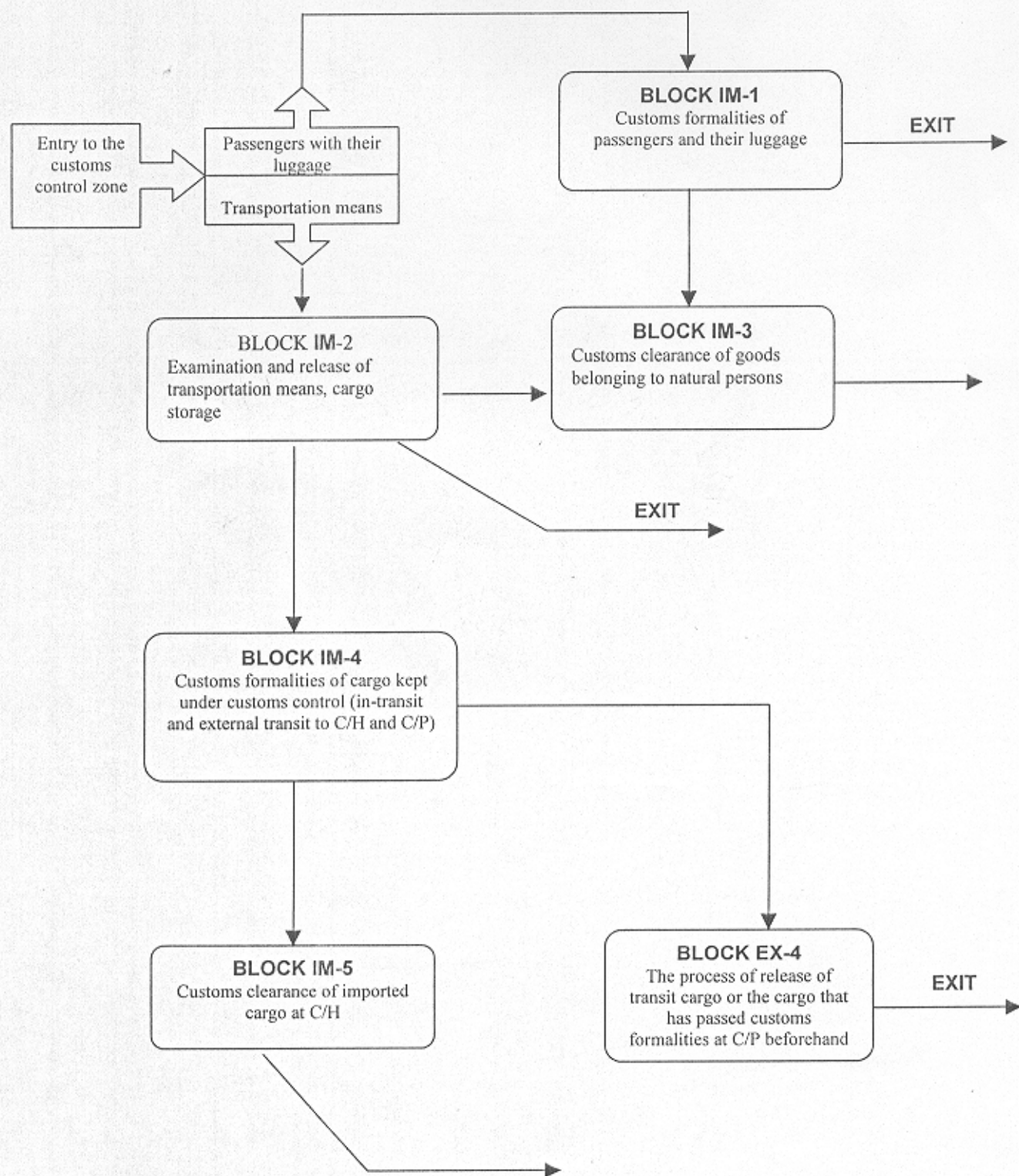
Appendix six

Flow Charts of Existing Import and Export Processes
Comments on Potential Areas for Improvement
Proposed Flow Charts Outlining Improved Processes

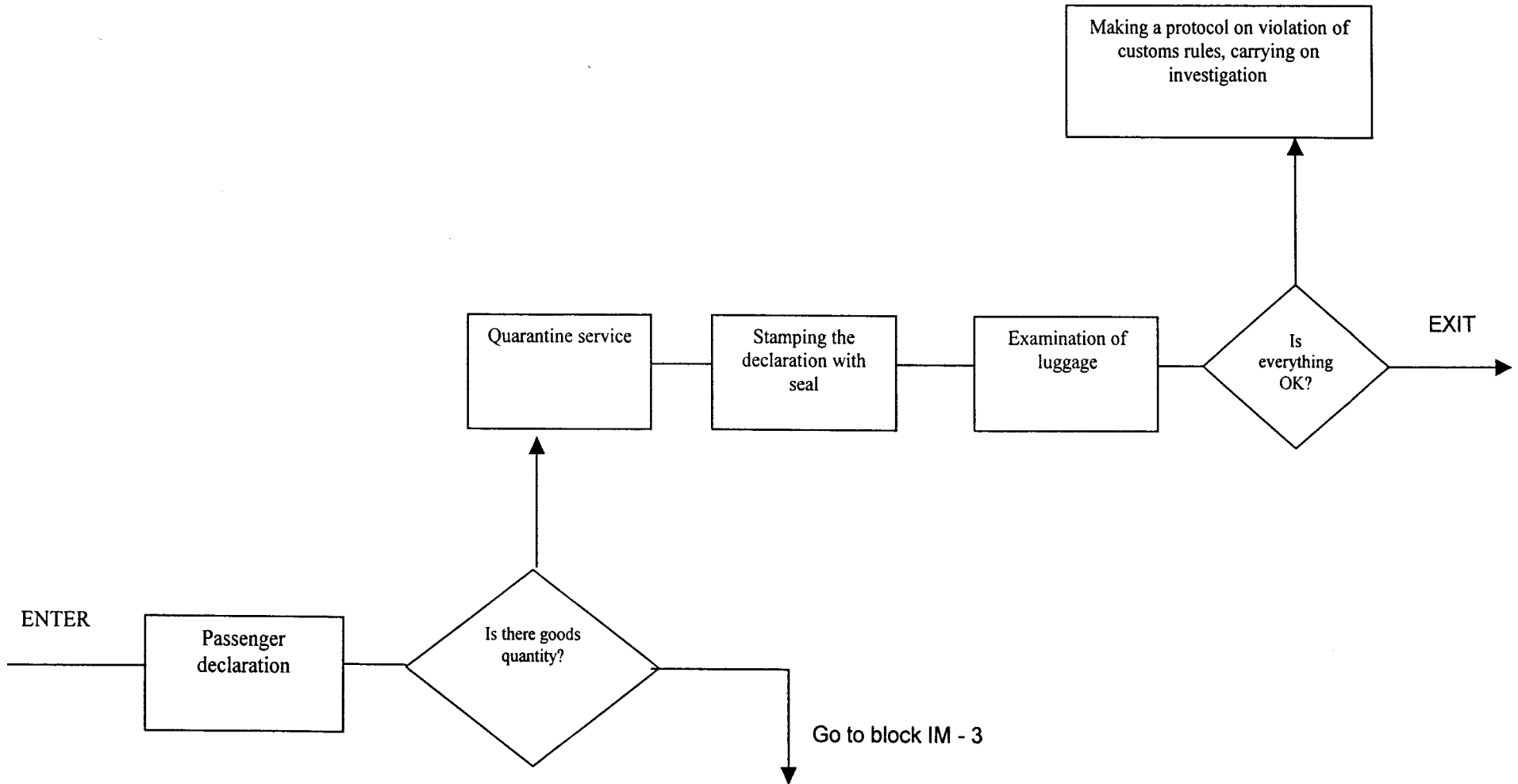
**CHART OF THE CUSTOMS FORMALITIES OF PASSENGERS, MEANS OF
TRANSPORTATION, GOODS BELONGING TO NATURAL PERSONS AND LEGAL ENTITIES
THAT HAVE ARRIVED FROM CUSTOMS POINT (EXCEPT FOR THE C/P IN MEGHRI)**



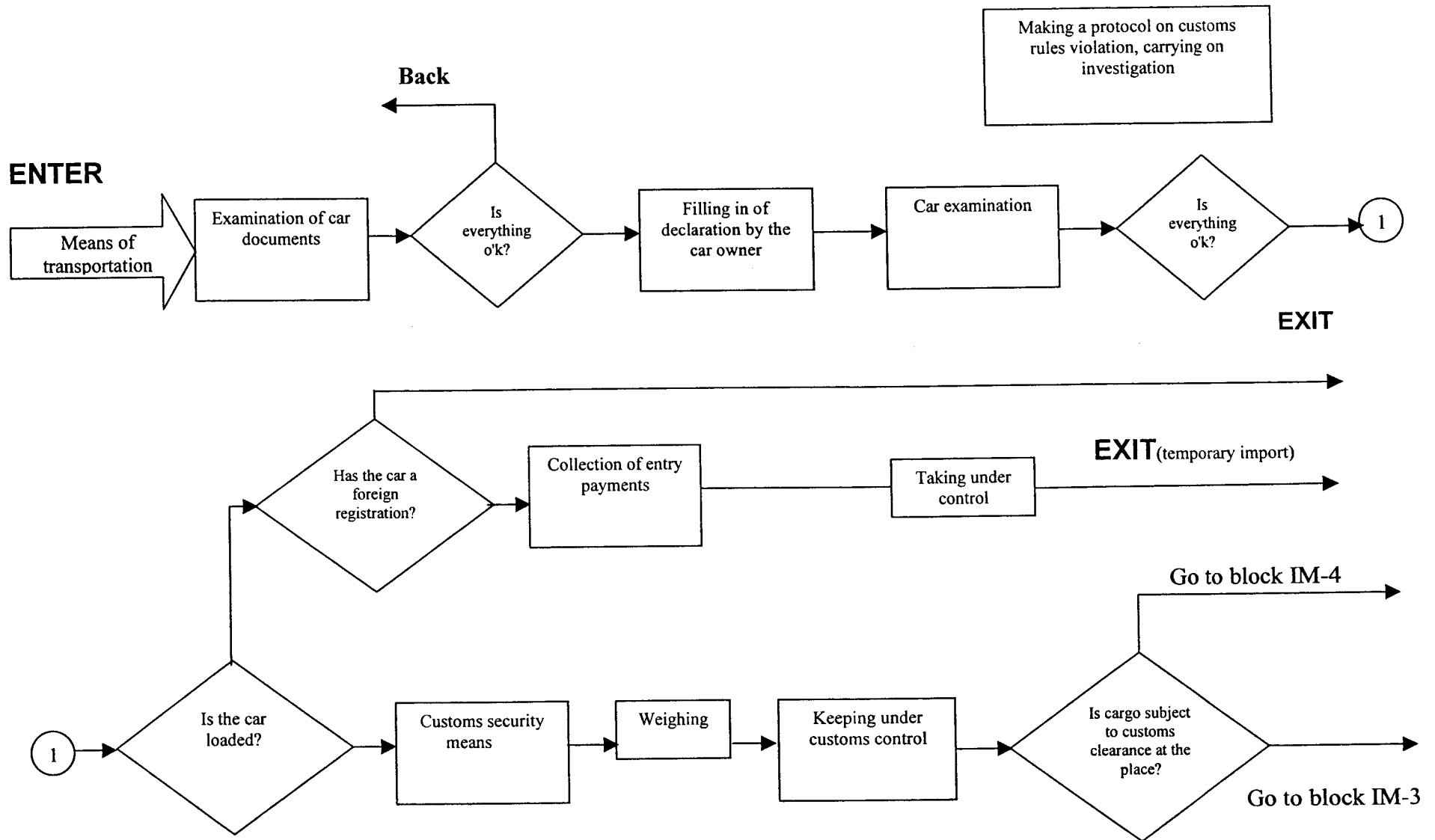
**THE CHART OF CUSTOMS FORMALITIES OF
PASSENGERS, TRANSPORTATION MEANS AND CARGO BELONGING TO
NATURAL PERSONS AND LEGAL ENTITIES THAT HAVE ARRIVED
THROUGH MEGHRI C/P**



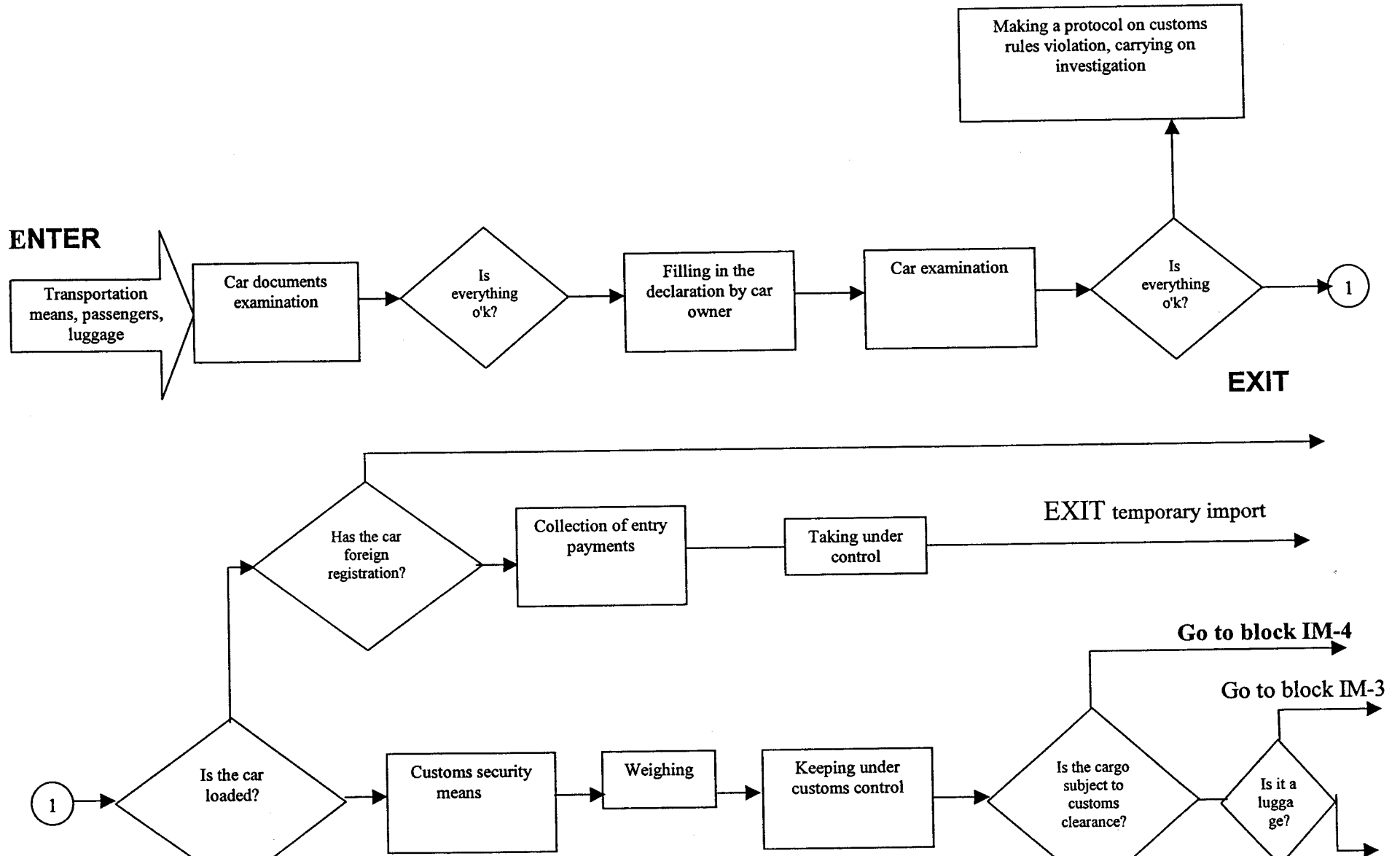
BLOCK IM 1



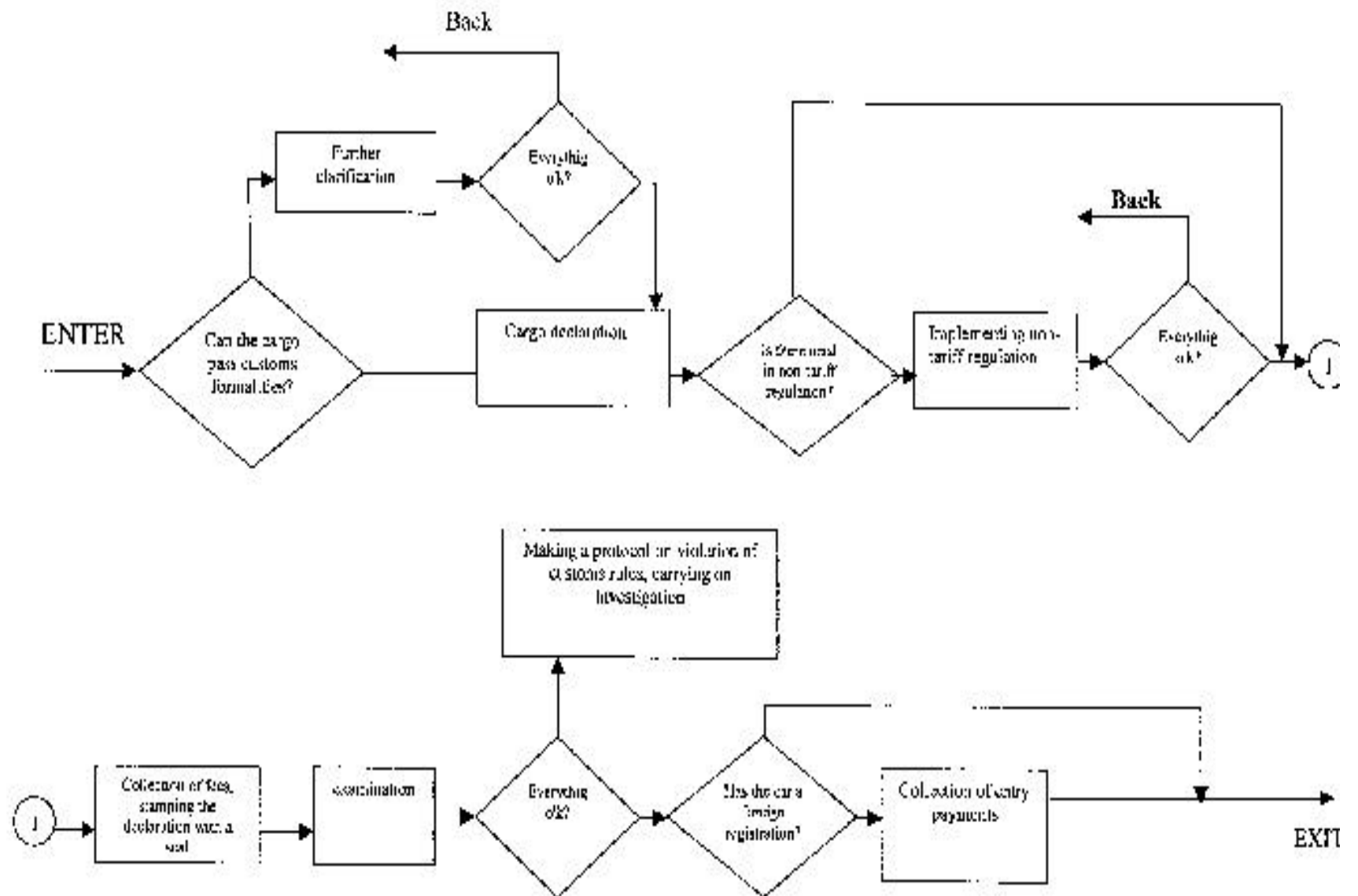
BLOCK IM-2



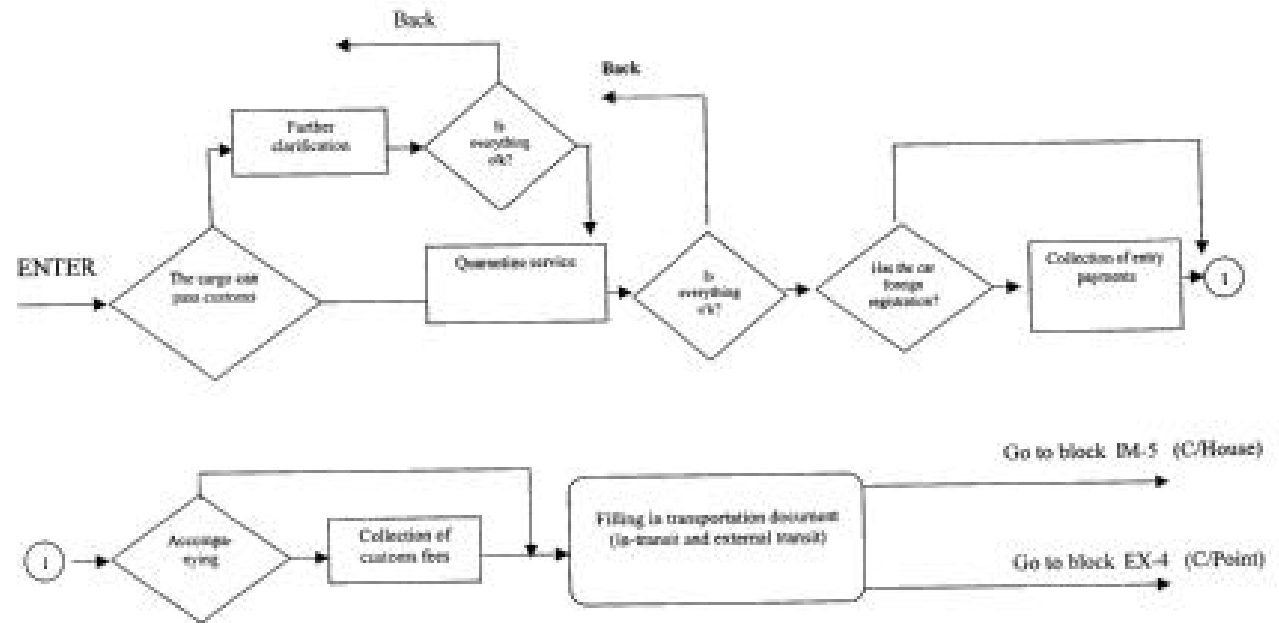
BLOCK IM-2A



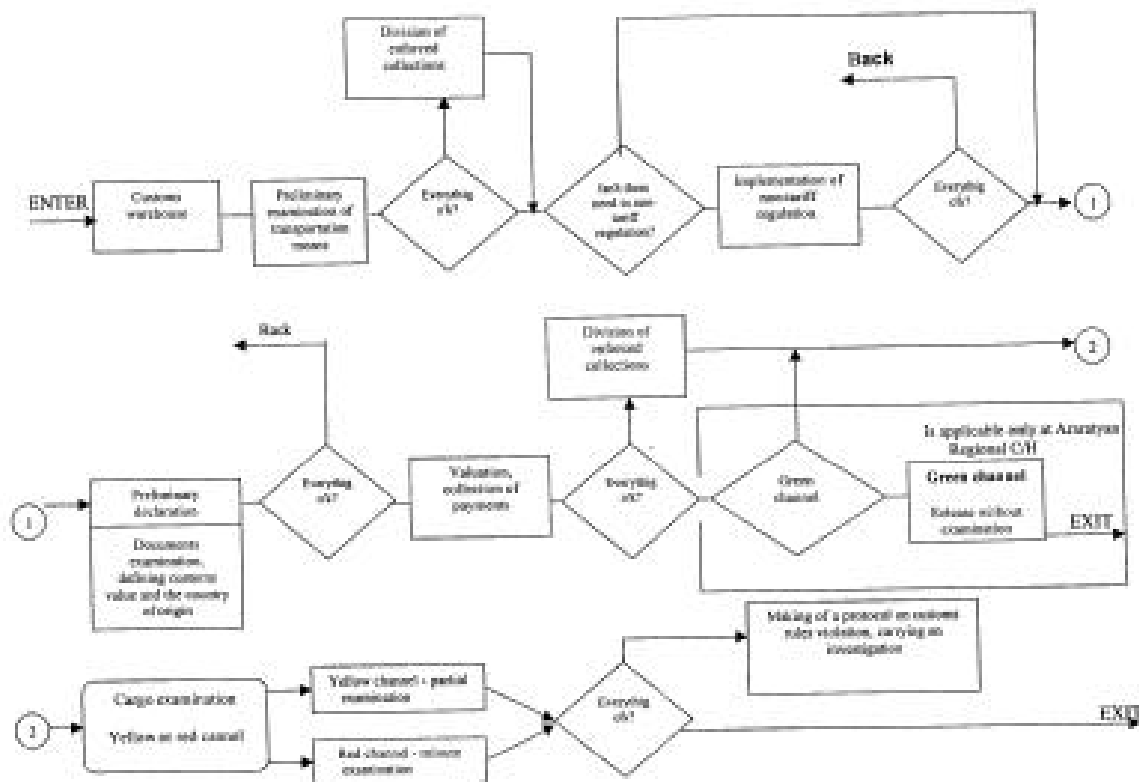
BLOCK IM-3



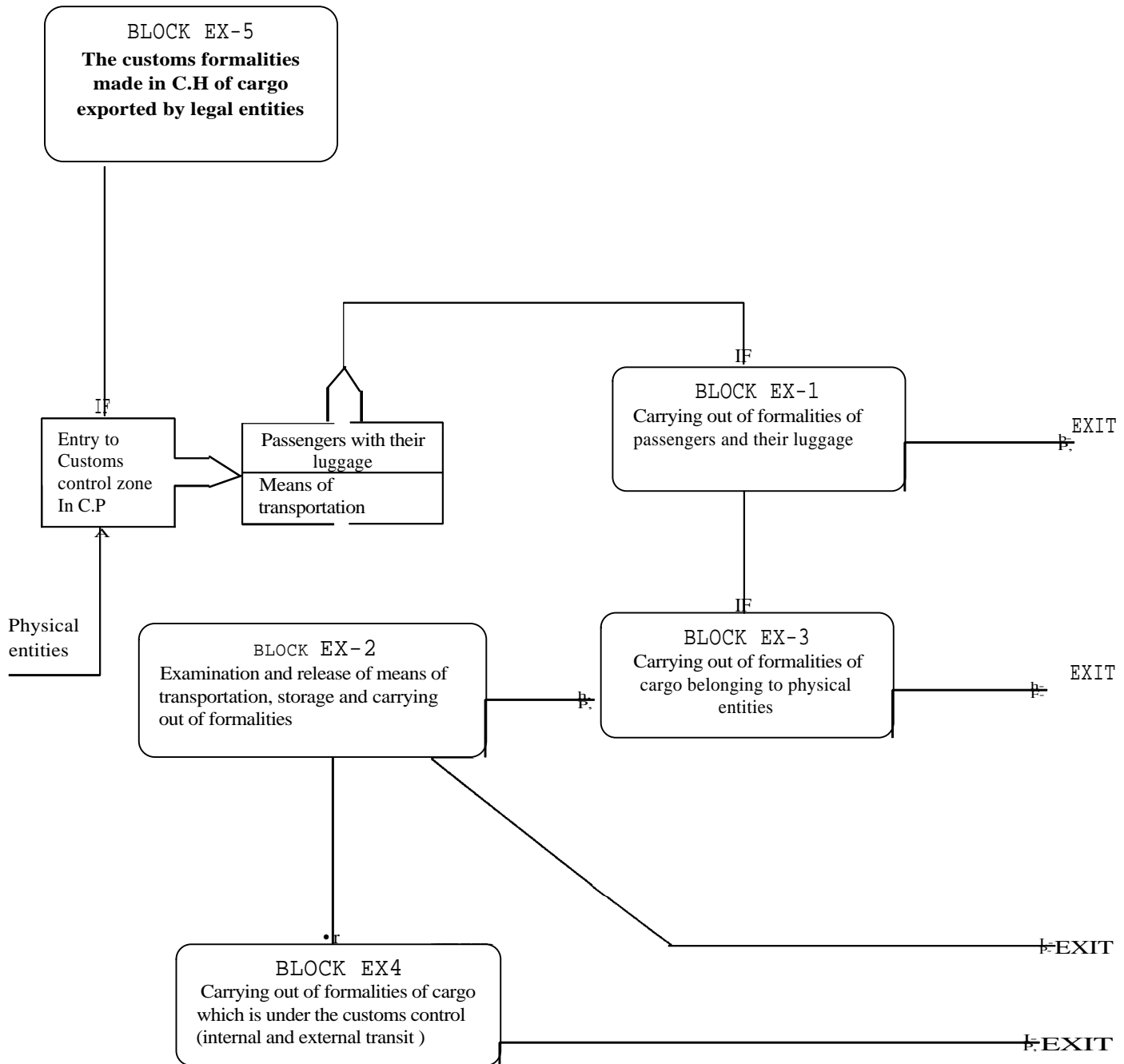
BLOCK IM-4



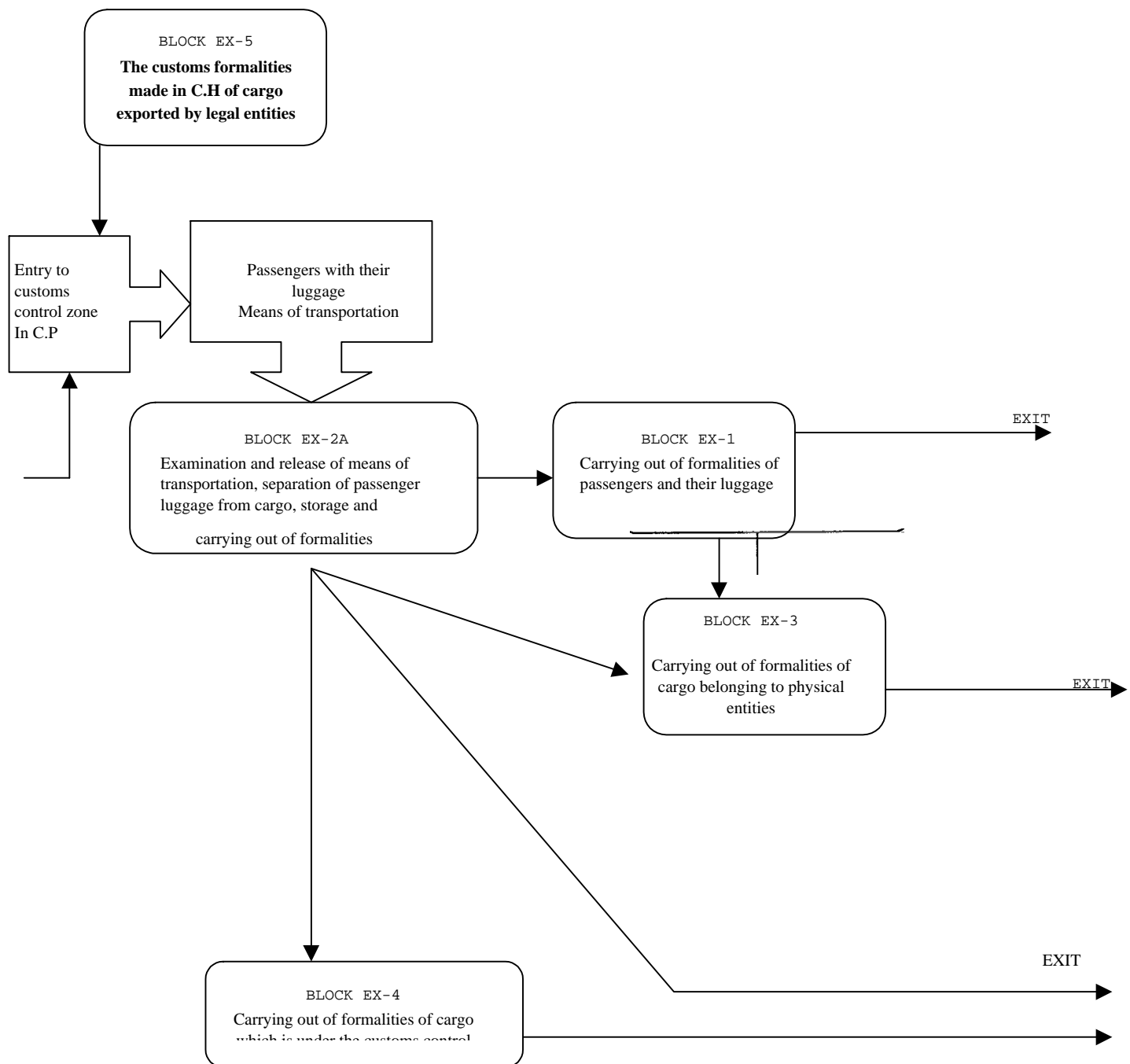
BLOCK EM-5 (C/House)



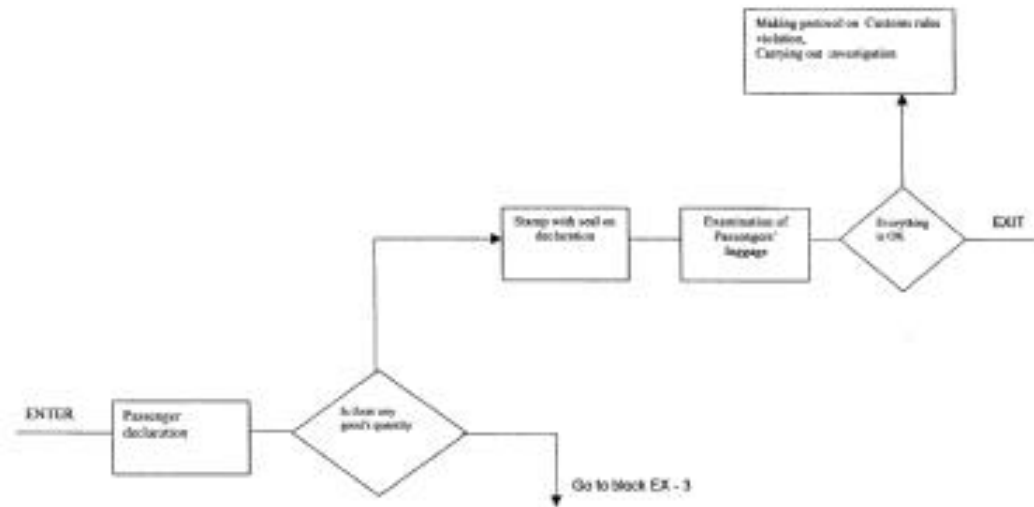
The flowchart of customs formalities of passengers, means of transportation and cargo belonging to physical and legal entities exported through Meghri Customs points



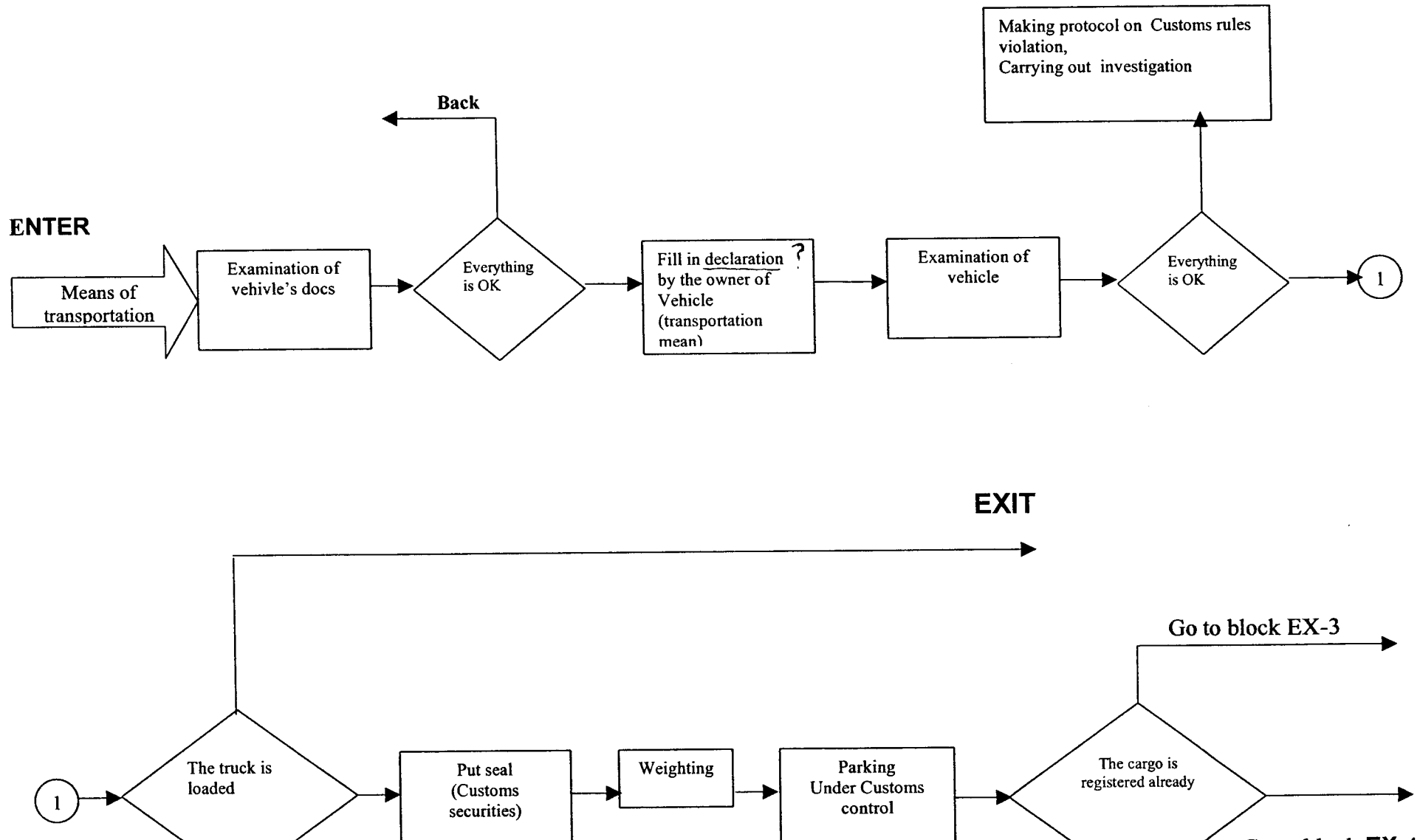
The flowchart of customs formalities of passengers, means of transportation and cargo belonging to physical and legal entities exported through Customs points (except Meghri C.P)



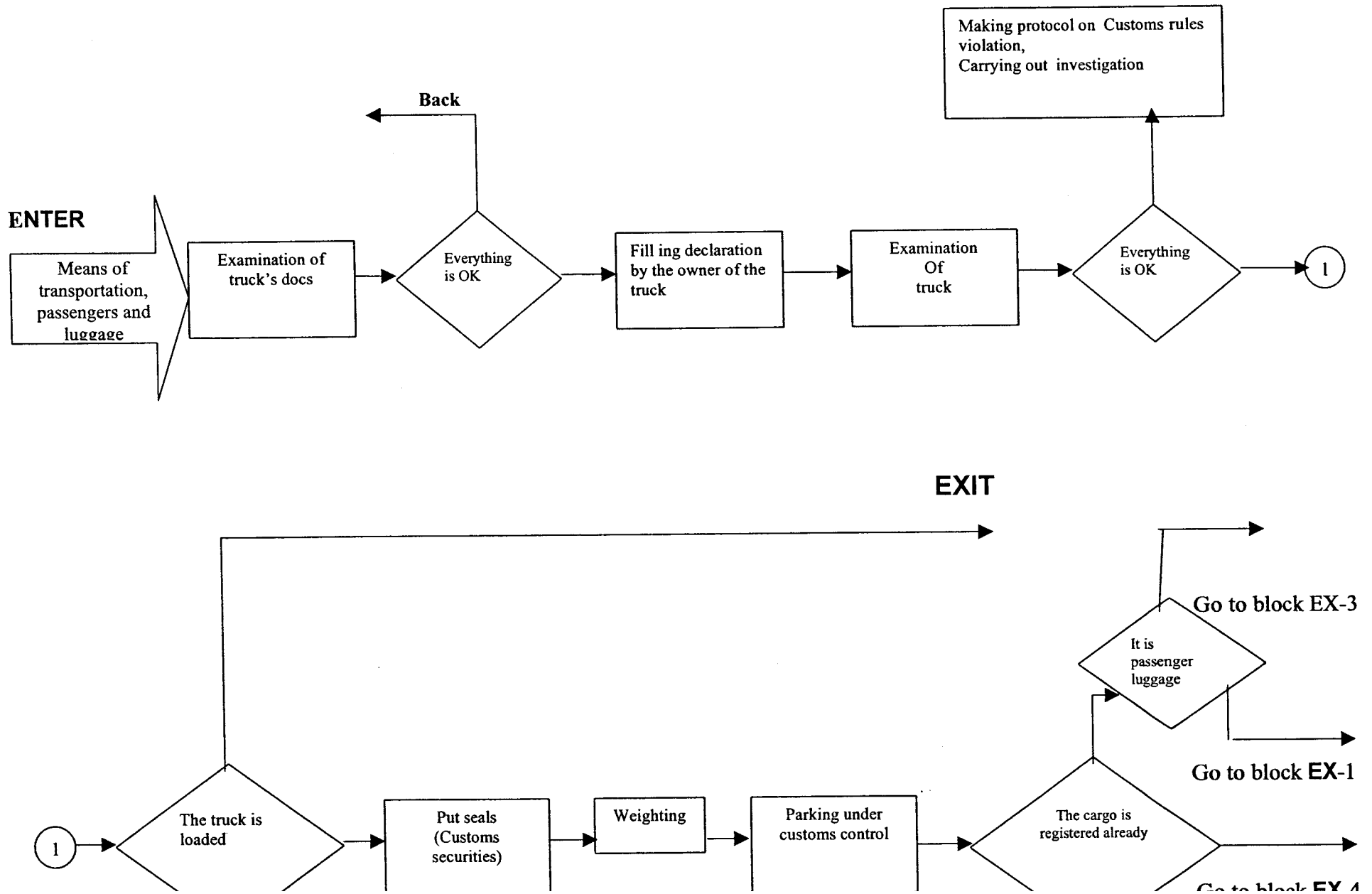
BLOCK EX 1



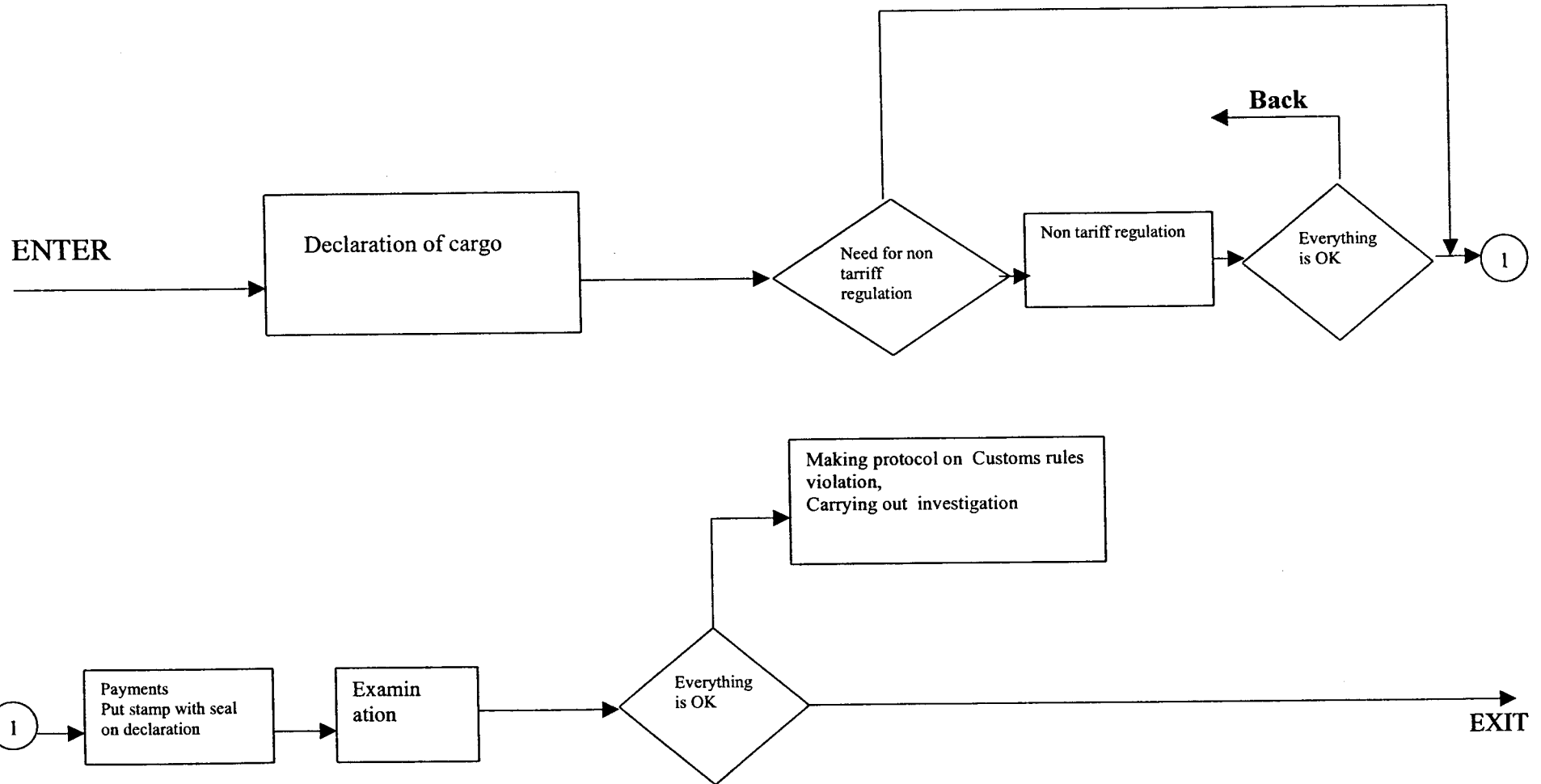
BLOCK EX-2



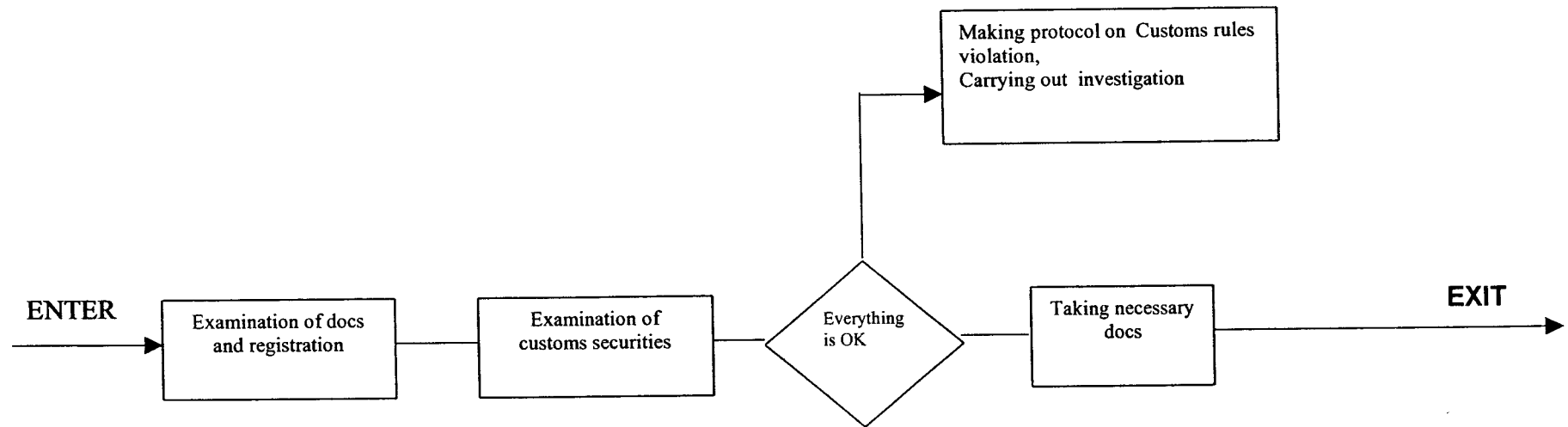
BLOCK EX-2A



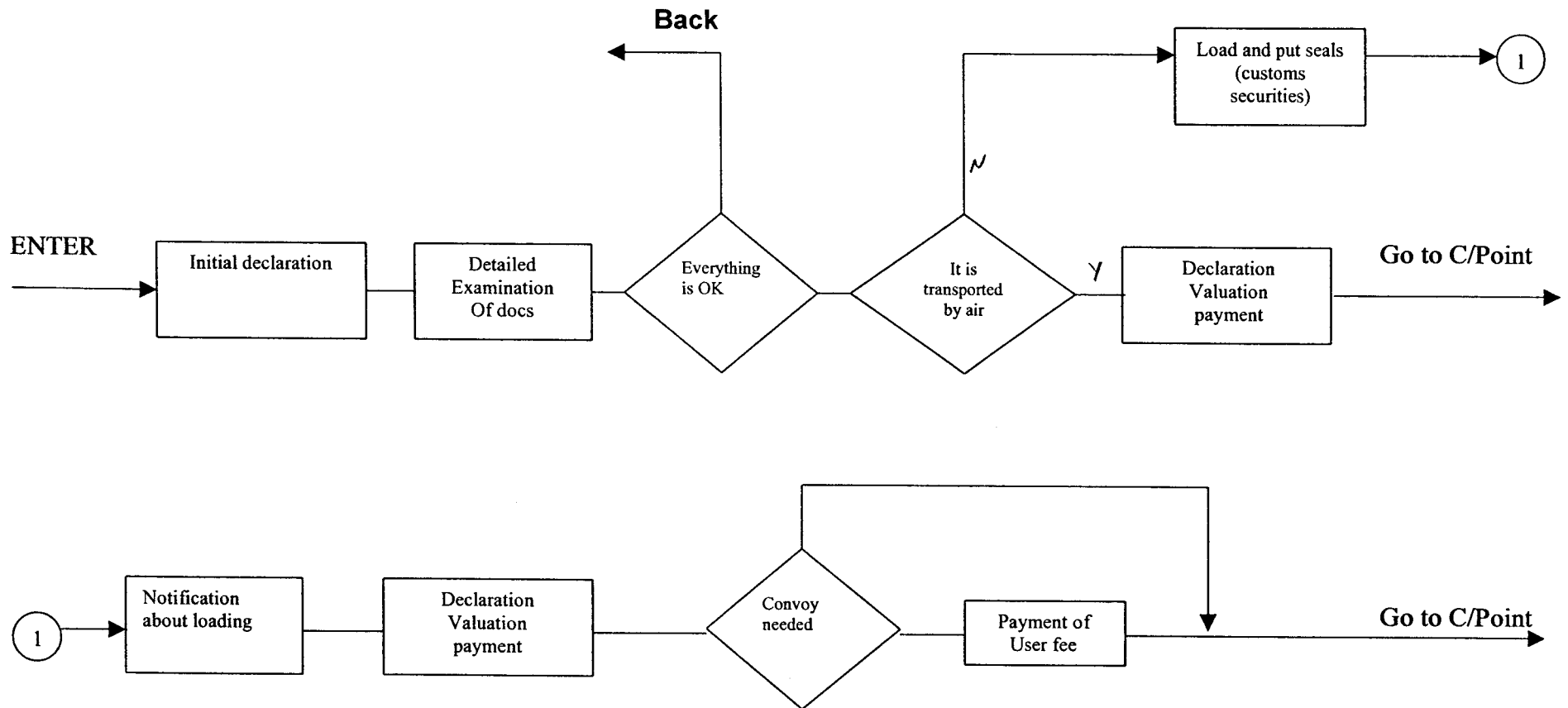
BLOCK EX-3



BLOCK EX-4



BLOCK EX-5 (C/House)



Analysis of import and export processes

Importprocess

The introduced flowcharts show the present procedures of the customs formalities. They are divided into two levels and let's begin the examining from the high level.

On entering Customs control zone, technological separation should be implemented: it means that passengers with their luggage enter passenger area where formalities and customs control is implemented (Block IM1). The means of transportation are examined without passengers and formalities are filled in (Block IM 2). Then, if needed, they pass customs clearance, cargo is stored and declared under temporary import regime.

If there is good quantity in Block IM 1, they pass to Block IM 3 where the luggage of passengers are declared and pass customs clearance. After they enter RA.

The cargo, means of transportation, cargo belonging to legal entities as well which are transported in transit through RA territory should be taken into customs control (Block IM 4). In case of transit shipment, the cargo passes customs formalities in destination C.P. (Block Ex 4). In case of temporary importation or clearance, the cargo passes customs formalities in destination C.H. (Block IM 5).

The flow of cargo, passengers and their luggage are not separated from means of transportation in other Customs points, as there are no necessary substructures. In fact the examination of passengers and their luggage, means of transportation are implemented in the same area which causes difficulties for both passengers and Customs officers (Block IM 2). Afterwards separation between different Customs regime is implemented.

Now let's try to show the problems of the importing and exporting processes according to separate blocks and find all the relevant solutions.

Block IM 1

Registration of passengers and their luggage (How they pass customs formalities)

There is no relevant separate substructure for passengers and their luggage to pass Customs formalities (Such building is available in Meghri Customs point only). The process begins with the obligatory filling in the declaration. The selectivity mechanism is not implemented. If the passenger has good quantity then further formalities are made according to the scheme in Block IM 3. If there is no good quantity then the next phase is quarantine control which is implemented by relevant service. Then oral questioning of passengers is implemented and declaration is stamped with the seal. Afterwards obligatory examination of passengers' luggage is implemented. There isn't any relevant equipments for examination, every thing is done manually. There is no separate room for examination of passengers if needed. If everything is normal, the passenger is free, but if any violation is detected, protocol is made and investigation takes place according to the procedure in force.

Problems	Solution	Expected results
1. There is no appropriate substructure for inspection of passengers and their luggage (Passenger area)	1. Provide relevant building.	1. Comfortable working conditions. Reduction of time spent on making of customs formalities. Increase of efficiency.
2. No selectivity, everyone is obligated to fill in passenger declaration	2. Implement red/green ways in customs points for passengers	2. - Time reduction - Directing over the passenger flow - increase the quality of service
3. Manual inspection of luggage	3. install relevant equipments.	3. - Time reduction - increase the quality of service - Detect the cases of smuggling and customs rule violation
4. Further control over the citizens who take his/her privilege more than twice during 6 month is impossible.	4. Provide network and software. Interchange of information.	4, Law enforcement increase of revenues increase of investigative activity

Outline

Everything is time consuming
Fill in declaration
inspection of luggage

Block IM - 2

EXAMINATION AND RELEASE OF TRANSPORTATION MEANS, CARGO STORAGE

At this block documentary examination, inspection and further registration of transportation means is carried out. First of all transportation means paperwork is examined (technical passport, bill of lading), then notes are made in relevant register; if there is any non-correspondence the entry of the car is prohibited. And if everything is normal the driver fills in passenger declaration, after which the car is being examined (there are no adequate tools and equipment to carry out the examination). In case there are detected any violations, a protocol is made on customs rules violation. If everything is normal there takes place separation of loaded and empty cars. The empty cars that have RA registration are immediately released, and if the cars have foreign registration then the driver makes entry payments (ecology and road payments, as well as customs user fee). Afterwards the customs regime of temporary import is implemented, CA-1^{01h} form is filled in for the car to be registered at State Motor Licensing and Inspection Department, and then notes are made in relevant register. In case of necessity customs security means are put on the loaded car or on the car belonging to legal entities, then the car is weighed (in most cases there are no scales at C/P). Immediately after this the means of transportation are sent to cargo terminal together with cargo. The concepts "cargo terminal" and "warehouse" are relative, as there are no adequate infrastructures for car parking, unloading, reloading, warehousing, keeping, maintaining control, examining, carrying out customs formalities and for implementing other necessary activities. After this process separation is made according to customs regimes; customs clearance and customs formalities of cargo belonging to natural persons is carried out at the place, in compliance with the chart **Block IM-3**, and the customs formalities of imported cargo that belongs to legal entities, as well as customs formalities of transit cargo that enters into the customs zone of the Republic of Armenia is carried out in accordance to chart **Block IM-4**.

Block IM - 2A

The same process described in **Block IM-2** is carried out here with one difference only: separation of cargo and passengers here is made in the end in the result of absence of adequate infrastructure.

Problem	Solution	Expected result
1. There are no adequate facilities for car parking and cargo warehousing.	Creation of adequate infrastructure to cover all cargo issues; car park, cargo terminal	- raise in the level of service; - time reduction; - better control.
2. Examination of transportation means is carried out slowly and poorly.	There is need in tools and equipment to examine means of transportation.	- time reduction, raise in the level of carrying out examination; - detection of smuggling and customs rules violation
3. Transportation means are not weighed, calculation of road payments is manual.	Installation of necessary scales, creation of computerized system that will facilitate payments calculation	- raise in the level of service; - time reduction.
4. Control over temporarily imported transportation means is not effective.	Sending information to all C/H-es through computer, maintaining control through	- raise in work efficiency; - detection of transportation means with expired date;

Block IM - 3

CUSTOMS CLEARANCE OF CARGO AND LUGGAGE BELONGING TO NATURAL PERSONS

First of all one needs to find out the citizenship of the cargo owner, as well as all necessary documents referring to cargo. For instance foreign citizen has no right to import commercial goods quantity. If the foreign citizen has imported such goods re-registration of those goods to RA citizen must be made and the latter shall be responsible for tax and customs payments. Afterwards cargo declaration is filled in manually, thus causing time consumption on the issues like defining code of goods, determining customs value, necessity to define non-tariff regulation and so forth. Relevant documents (certificate, quarantine license, conclusion) are required for goods of non-tariff regulation. After all the above-mentioned documents are presented collection of payments is made and the declaration is stamped with seal (here there is lack of selectivity mechanism). Then a manual examination is carried out, as there is no adequate equipment. If everything is normal we proceed to the next step, if not a protocol is made on customs rules violation. At the next step we are through with customs control and the goods enter the RA customs territory under the custom regime of temporary import. This block is the most time consuming in the whole process. And the most time is consumed on the period between the cargo declaration and up to the end of examining.

Problem	Solution	Expected result
1. The cargo declaration is carried out manually.	There is need in creation of adequate software and computerized system to ease the declaration process.	-Raise in service level, time reduction, -quick data processing, -avoiding misuses
2. There is no selectivity mechanism.	Application of adequate selectivity procedures with regard to cargo belonging to citizens.	Time reduction, -raise in service level, -efficiency.
3. The examination is carried out manually.	Installation of necessary equipment to carry out examination.	Time reduction, -raise in service level, -detection of customs rules violation and cases with smuggling.

Block IM - 4

CUSTOMS FORMALITIES OF CARGO UNDER CONTROL (IN-TRANSIT AND EXTERNAL TRANSIT)

We need to mention first that this process is going to be left out in case ASYCUDA program is applied at C/P (cargo import by legal entities).

The process begins with paperwork examination of cargo and the cargo owner, then further clarification is made. Sometimes this process is held over in the result of information lack (registration of legal entity, registration folder at territorial C/H, etc.). Afterwards an examination is carried out by quarantine service. If everything is normal car payments are made if necessary. Then the question of accompanying arises; in case the cargo is accompanied customs user fees are made. In the end a transit document is filled in and sent to relevant customs house or customs point.

Problem	Solution	Expected result
1. The process of documents clarification is carried out very slowly.	There is need to create an informative software providing the operative process.	-Quickness of activities, - raise in service level.
2. Accompanying.	The decision on accompanying should be made if there is information about importer in database.	-Efficiency. -Activate
3. Impossibility to carry out customs clearance on the border at the request of the importer.	Application of computerized network at C/P and implementation of ASYCUDA program.	Time reduction of customs clearance, - better control.
4. Customs clearance lasts from 2 to 4 days before the cargo reaches C/H.		
5. There are cases when customs security means are damaged.		
6. Unnecessary paperwork.		
7. Cargo Customs Declaration is not filled in for cargo passing by transit through the territory of the Republic of Armenia.		

Block IM 5 (C.H)

The customs clearance of imported L,ood in Customs House

On entering into customs warehouse, the means of transportation are inspected immediately (They pass initial examination). In case of Customs security violation they are sent to "Enforced collection division" (Protocol on customs rule violation, penalties). Then, they clarify weather the imported goods need non-tariff regulation (Relevant certificate, license, decision). Then initial declaration is filled in. It assumes detailed examination of documents, customs valuation, and determination of origin country, which is time consuming.

If everything is normal, selectivity mechanism should be implemented. It is worth to mention that this selectivity mechanism is implemented in ACH (Araratyan Customs House) only. The goods are released if the green way is chosen. Thus separations into red yellow and green ways are implemented according to certain range of principles. The goods are examined partially if the yellow way is chosen. The goods are examined in detail if the red way is chosen. It is time consuming too, as there is lack of necessary equipment.

Problems	Solution	Expected results
1. Wrong mechanisms of determination of customs value	1. -Reach the case when invoice is accepted as basis for determination of Customs value. -Process an order of distributors' registration. -Publish the list of countries and organizations.	1. Law enforcement - Reduction of wasted time. - Increase the quality of service.
2. Manual processing, although the program is present (ASYCUDA)	2. Amendments to be made in User fee calculation program. (For goods having strategic importance, to get information through Computerized system).	2. -Reduction of wasted time. - Increase of investigative activity. - Increase the quality of service
3. The selectivity mechanism is implemented in Araratyan CH only.	3. There is need to apply selectivity mechanism in other Customs houses.	3. -Reduction of time spent on customs formalities. - Right allocation of resources
4. The examination of cargo is done very poorly and manual which is time consuming.	4. There is no adequate facilities for cargo to be stored. There is need for monitors for examination of goods.	4. - Increase of control. - Detection of cases of smuggling and customs rule violation. - Reduction of time Increase the quality of service.
5. Loss of perishable goods as there is lack of adequate facilities.	5. There is need for adequate facilities in order to prevent the loss of perishable goods.	5. Prevent the losses

Export process

In export process basically we come across with the same problems and barriers which we face during the import process. One of the more important problems that we face is that the flow of passengers, their luggage and means of transportation is not separated according to adequate passenger and cargo areas, as there is no necessary substructure except for Meghri Customs point.

Blocks EX I ~ EX 2, Ex 3

Here the problems and the solutions are the same as in Blocks IM 1, IM 2, IM 3.

Block EX 4

Here the release, of cargo belonging to legal entities already passed customs formalities in Customs House, is implemented.

The customs points also gain ability to pass customs formalities of cargo belonging to legal entities during the exportation if program of ASYCUDA is accomplished.

Block EX-5

The procedure of customs formalities for cargo of legal entities begins with initial declaration and detailed examination of all required documents, included purchase document and permissions from other organizations.

The country of origin, value and code should be mentioned in initial declaration. If this process is normal we can go on. The selectivity mechanism should be implemented after initial declaration and examination of documents. After the declaration if the green way is chosen, payments should be made, put customs security means (seals) and sent to Customs point. In fact only red way is operating currently: after the relevant payment, the cargo that is subject to be exported by air, is sent to airport where it is examined.

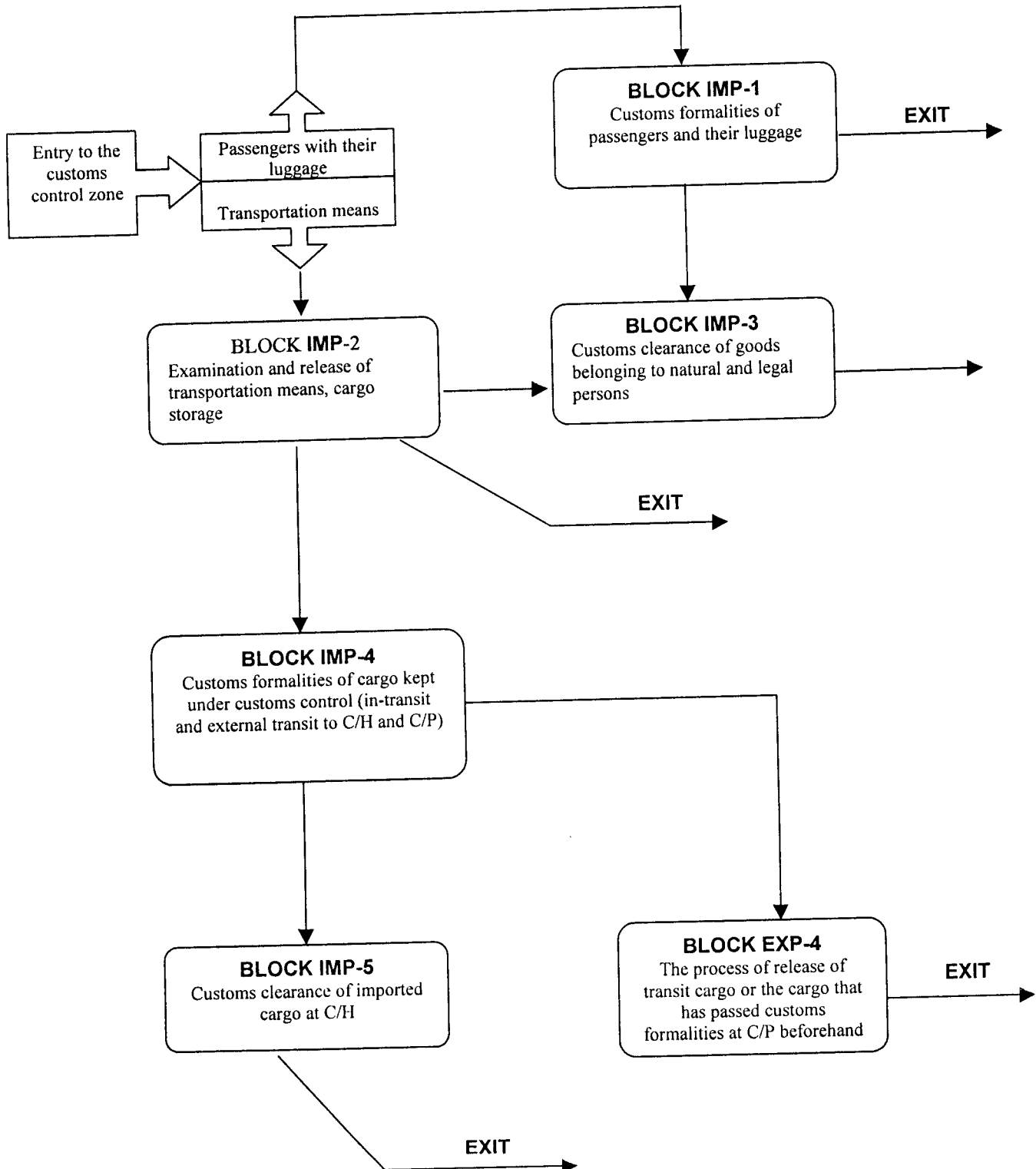
In the case if the cargo is to be exported by truck, the loading and examination of cargo should be implemented in warehouses or in the exporters' area which itself causes some problems. After customs securities are put, a notification should be given about loading that is not regulated by law either. After all this a final declaration should be filled in, the customs value should be determined and paid. Afterwards, the decision on accompanying should be made and sent to Customs point.

Problems	Solutions	Expected results
No selectivity.	There is need to implement selectivity mechanism after the initial declaration. There is need to check the all audit documents of the organization even the blue way was given.	Reduction of time spent on formalities. increase the quality of service. Increase the investigative activity.
Not required control, and additional paperwork.	The customs points should have ability to make all these formalities.	Reduction of time. Comfortable conditions forexporters.
Payments for export	Amendments should be done in Law on User fees.	Facilitate the export.

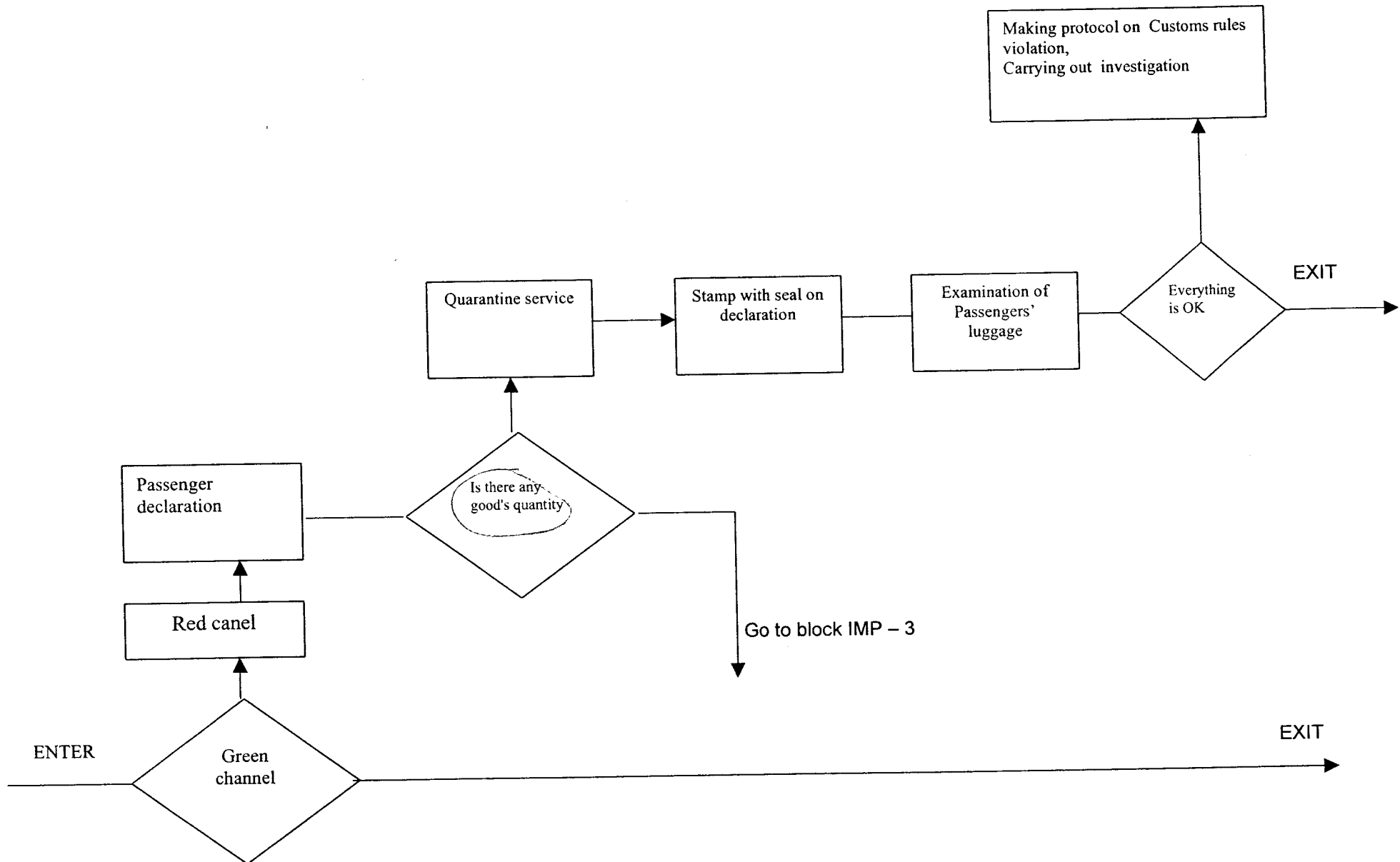
The general analysis showed that there are existing problems with respect to importing, exporting and movement of vehicles. These concerns have common issues and, as such require a comprehensive and inclusive solution. As a suggestion, the workshop introduced the simplified procedures and flowcharts of the customs formalities. Here, all the present problems and possible solutions are considered, but certainly not exhaustive. Not only are the technical solutions important, but also the corresponding legislative changes and mechanisms must also be in place. Each of the flowcharts' actions must be legally controlled, well documented, made available to the public and performs consistently and professionally. Only by realizing this entire can we have the above mentioned expected total results.

PROPOSALS (IMP.)

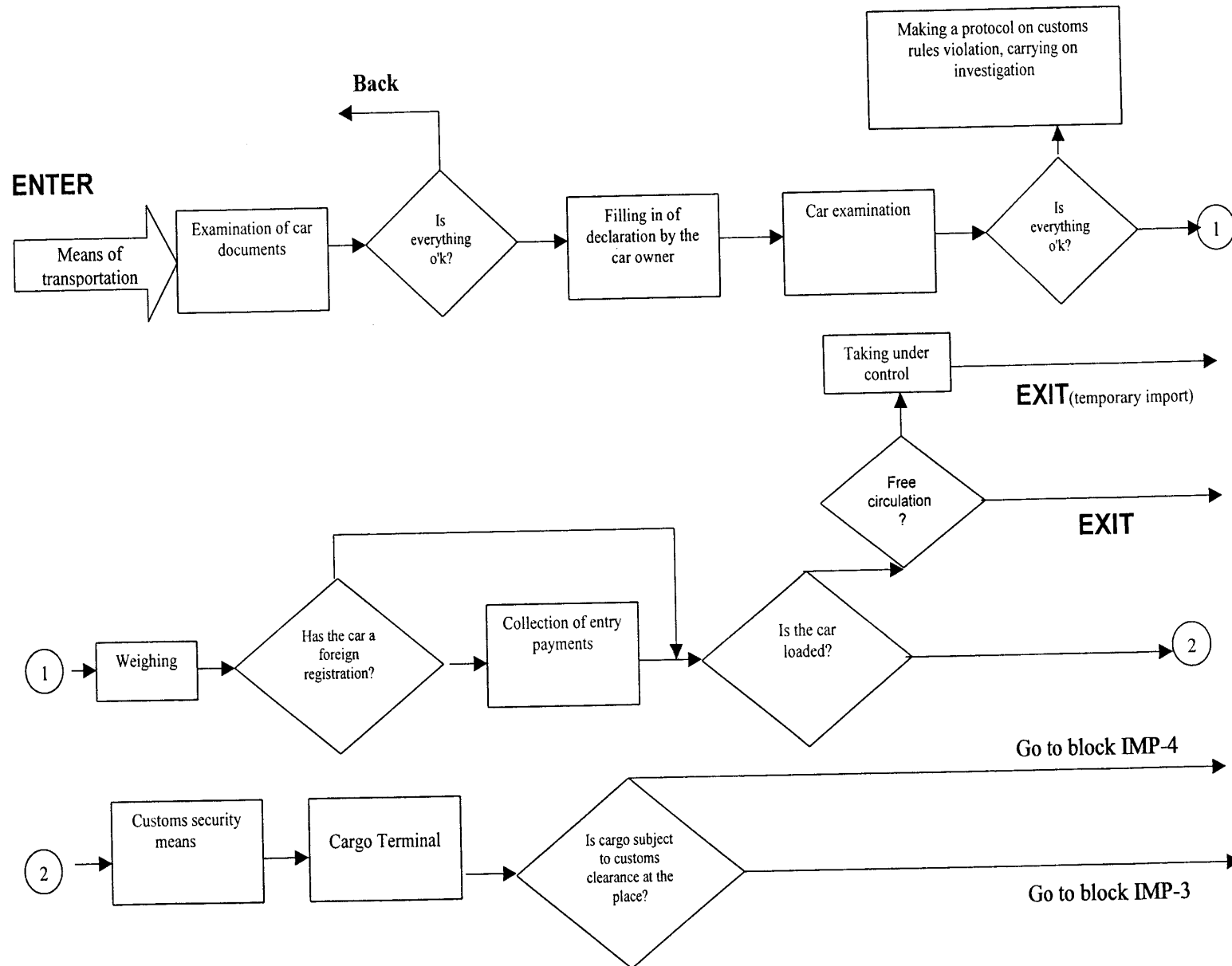
THE IMPORT CHART OF CUSTOMS FORMALITIES OF PASSENGERS, TRANSPORTATION MEANS AND CARGO BELONGING TO NATURAL PERSONS AND LEGAL ENTITIES



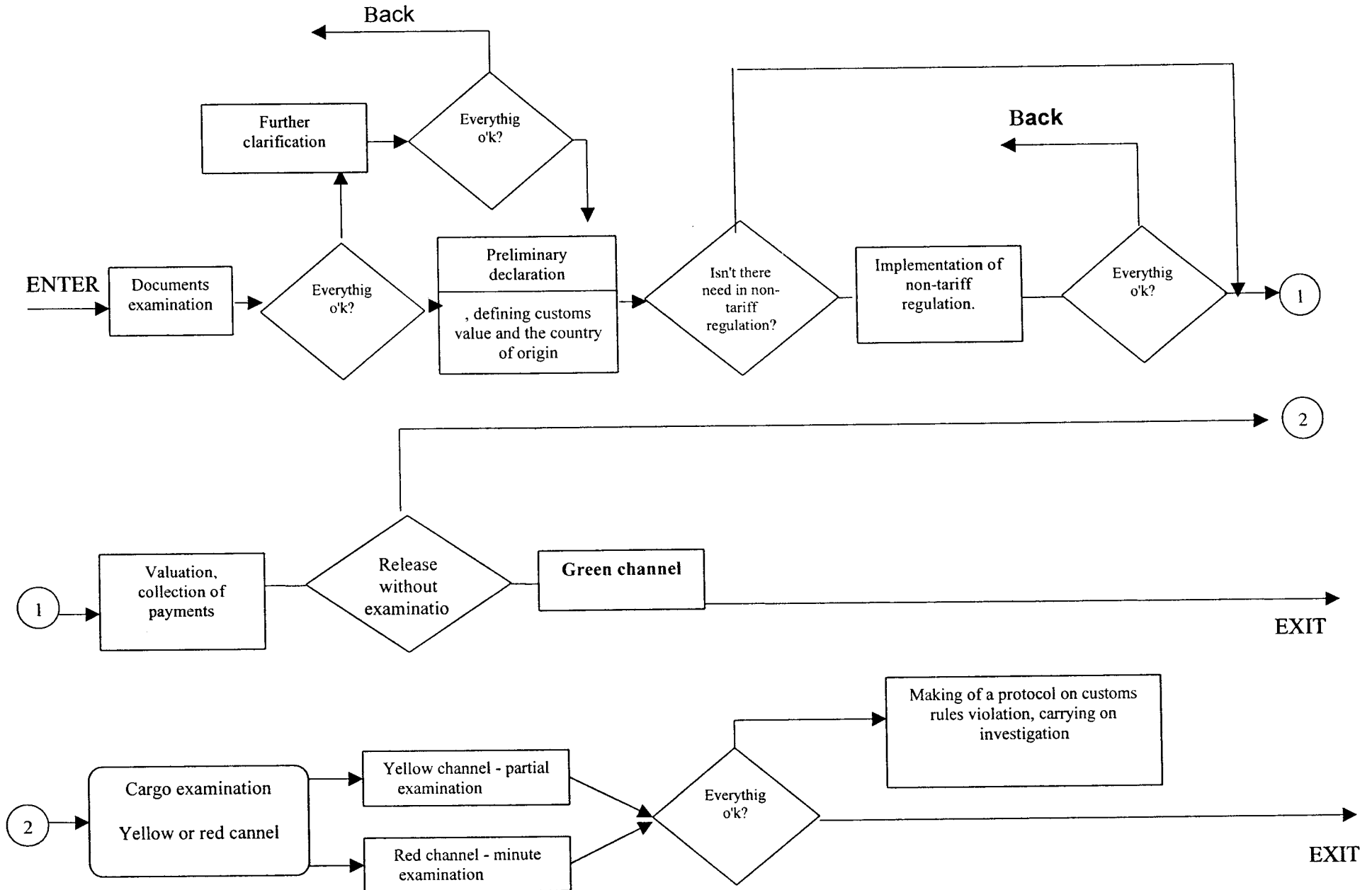
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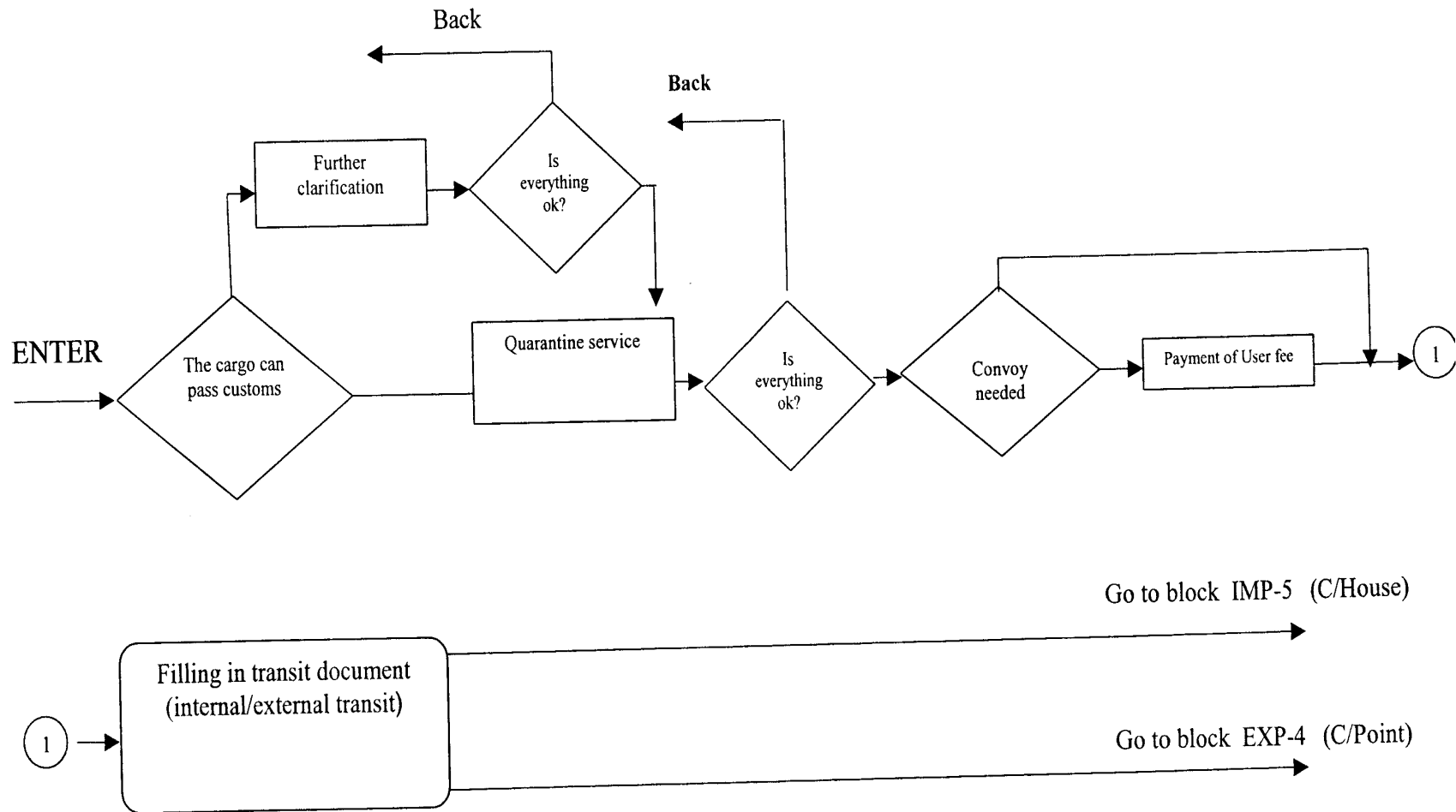
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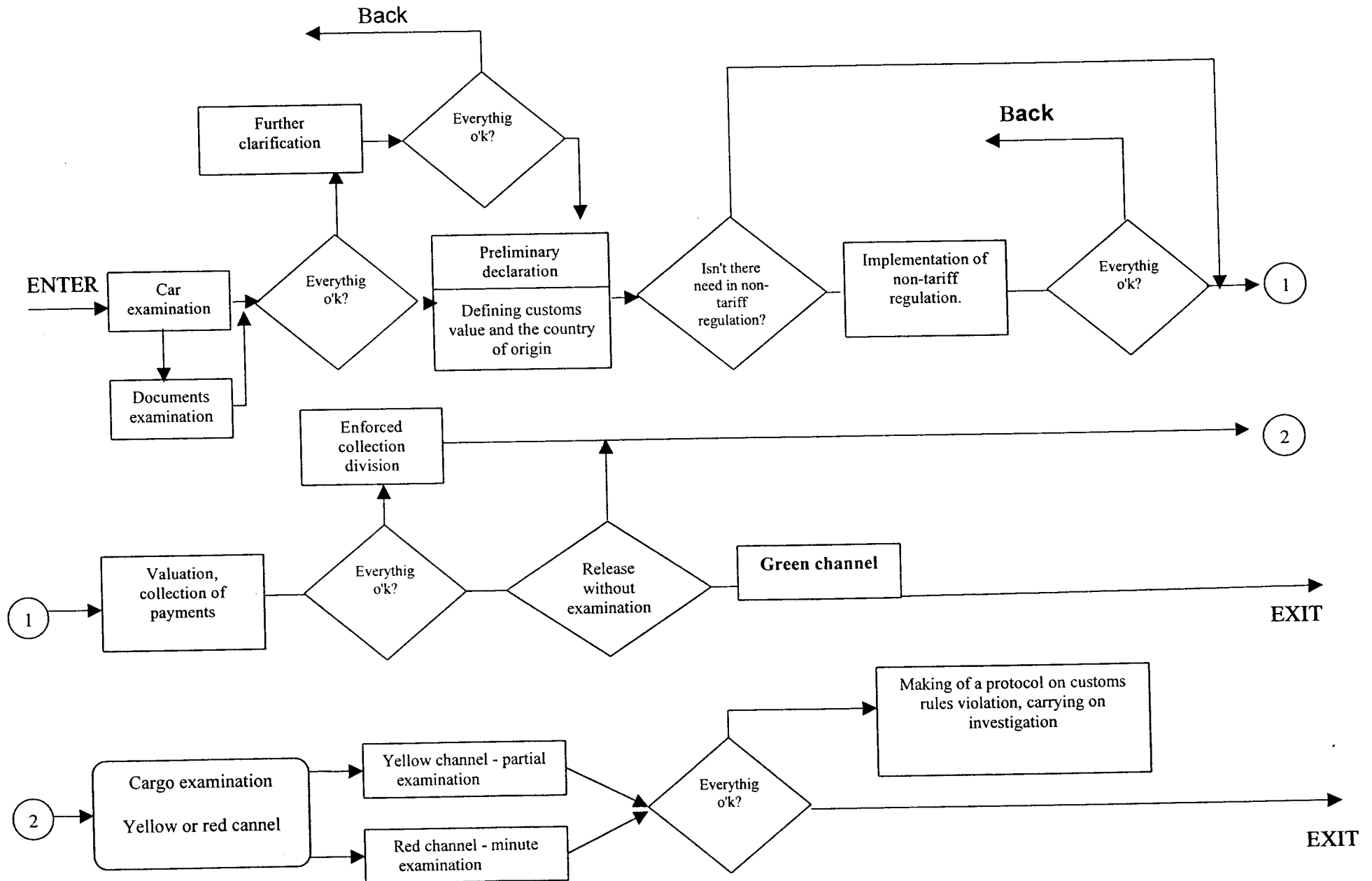
BLOCK IMP-3



BLOCK IMP-4

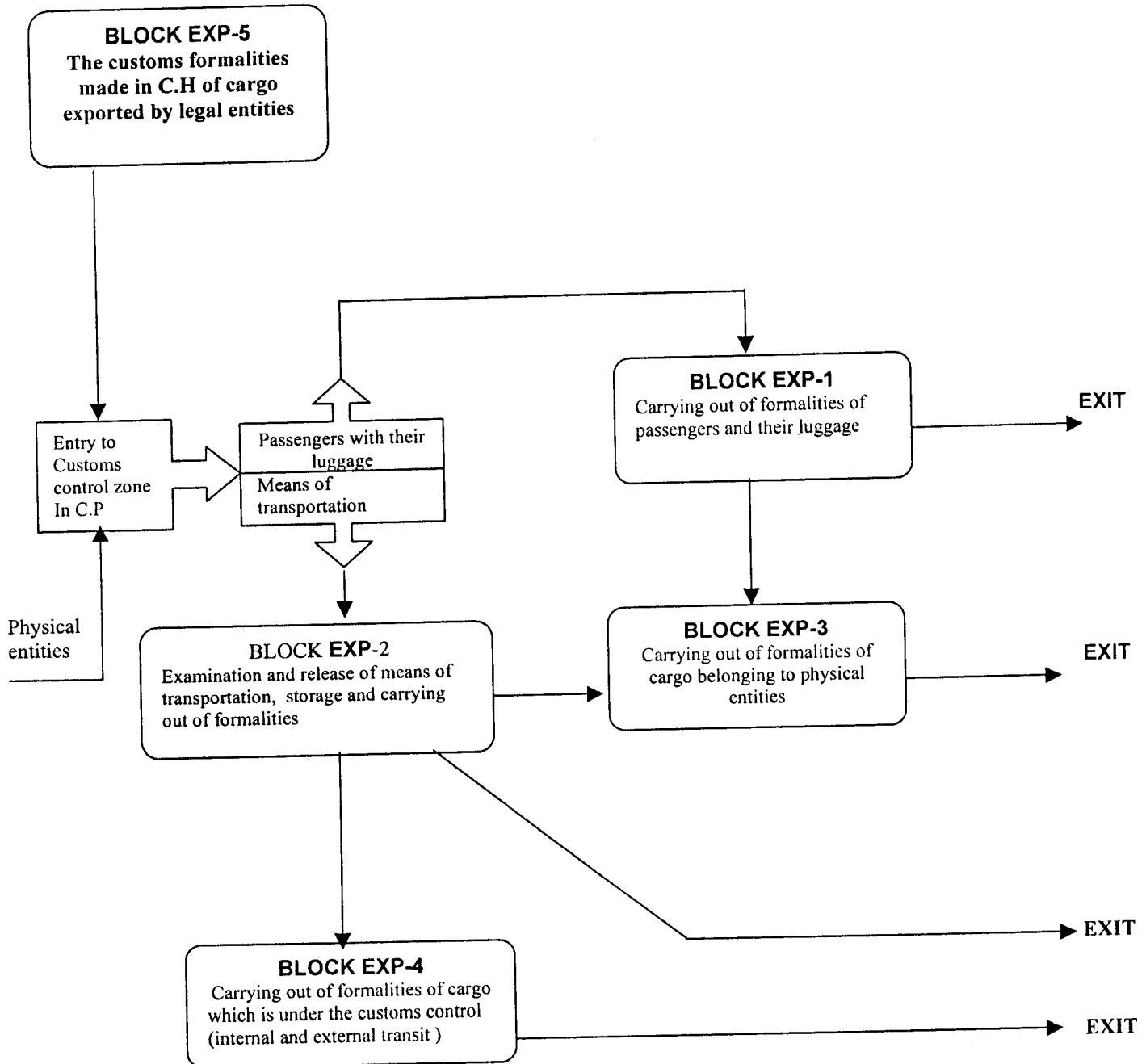


BLOCK IMP-5(C/HOUSE)

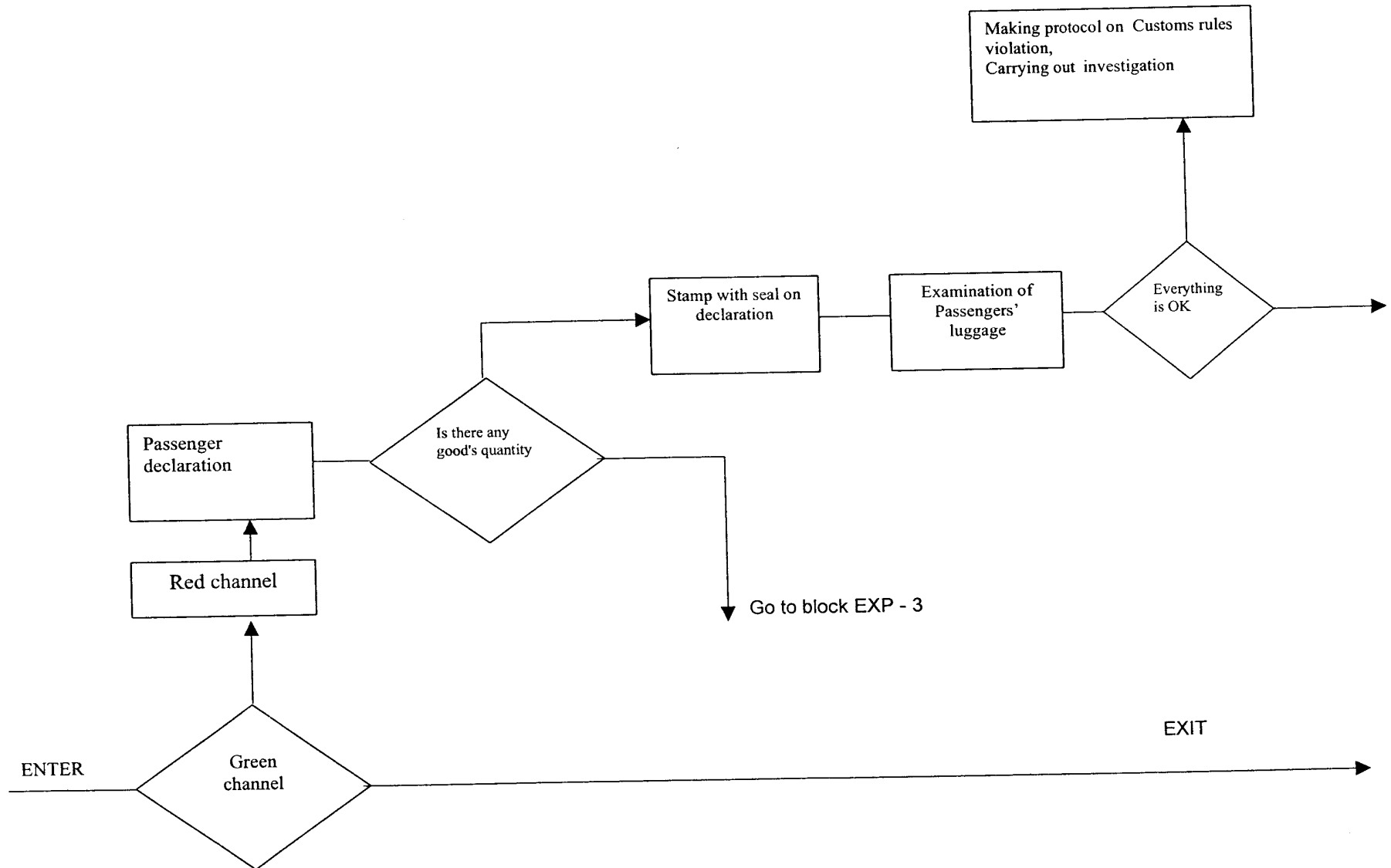


PROPOSALS (EXP.)

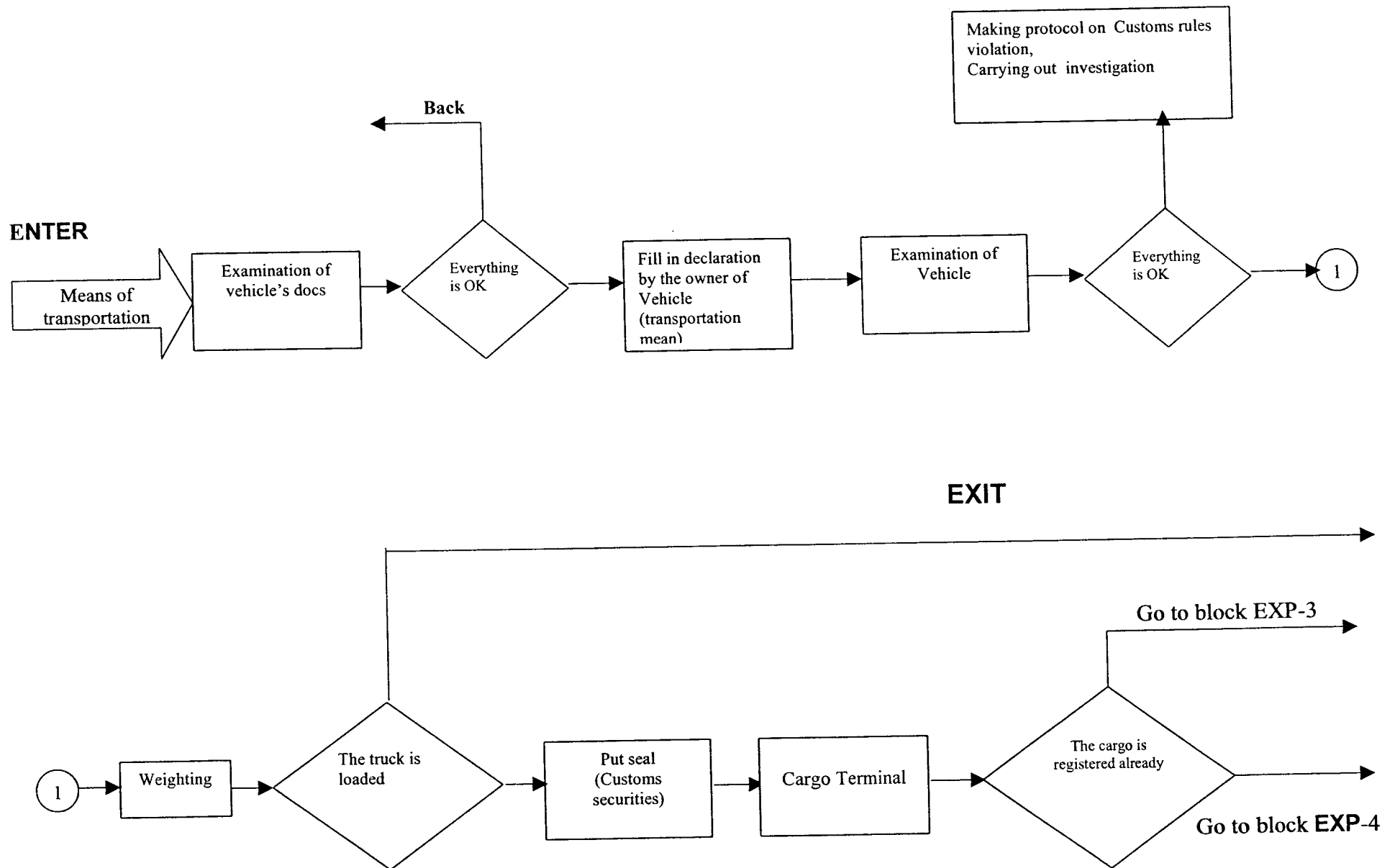
THE EXPORT CHART OF CUSTOMS FORMALITIES OF PASSENGERS, TRANSPORTATION MEANS AND CARGO BELONGING TO NATURAL PERSONS AND LEGAL ENTITIES



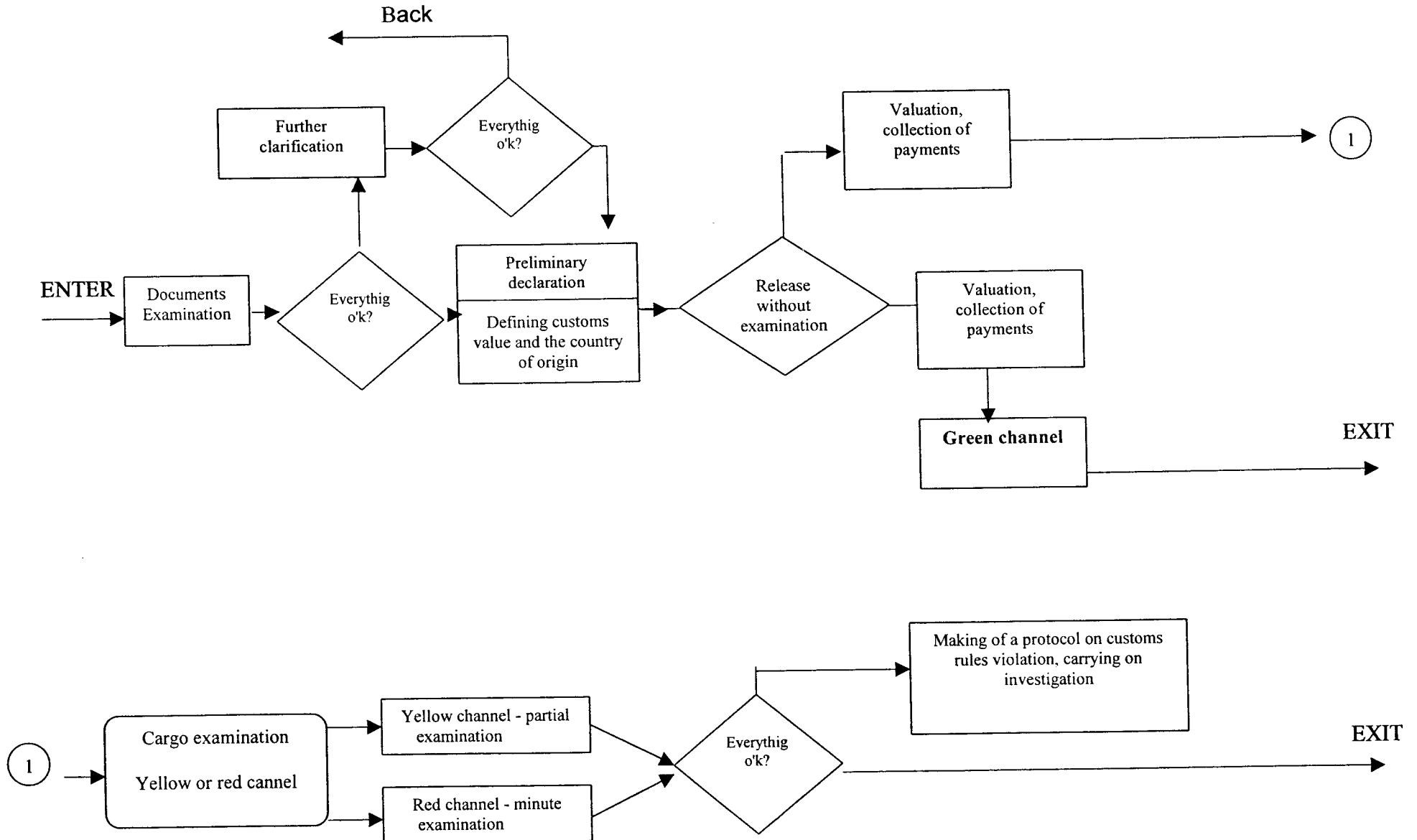
BLOCK EXP 1



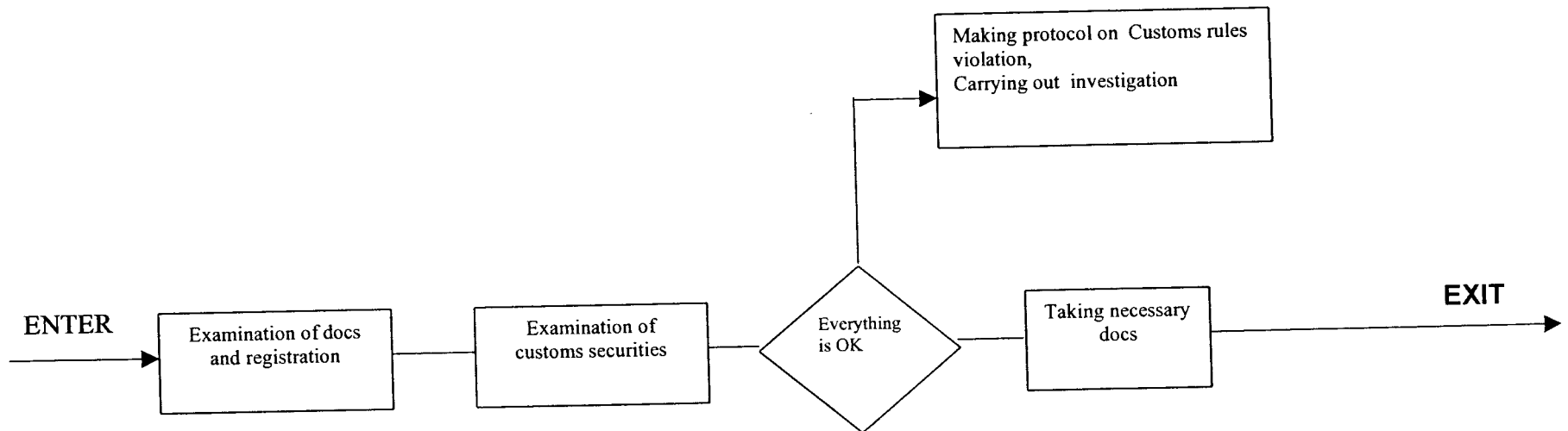
BLOCK EXP-2



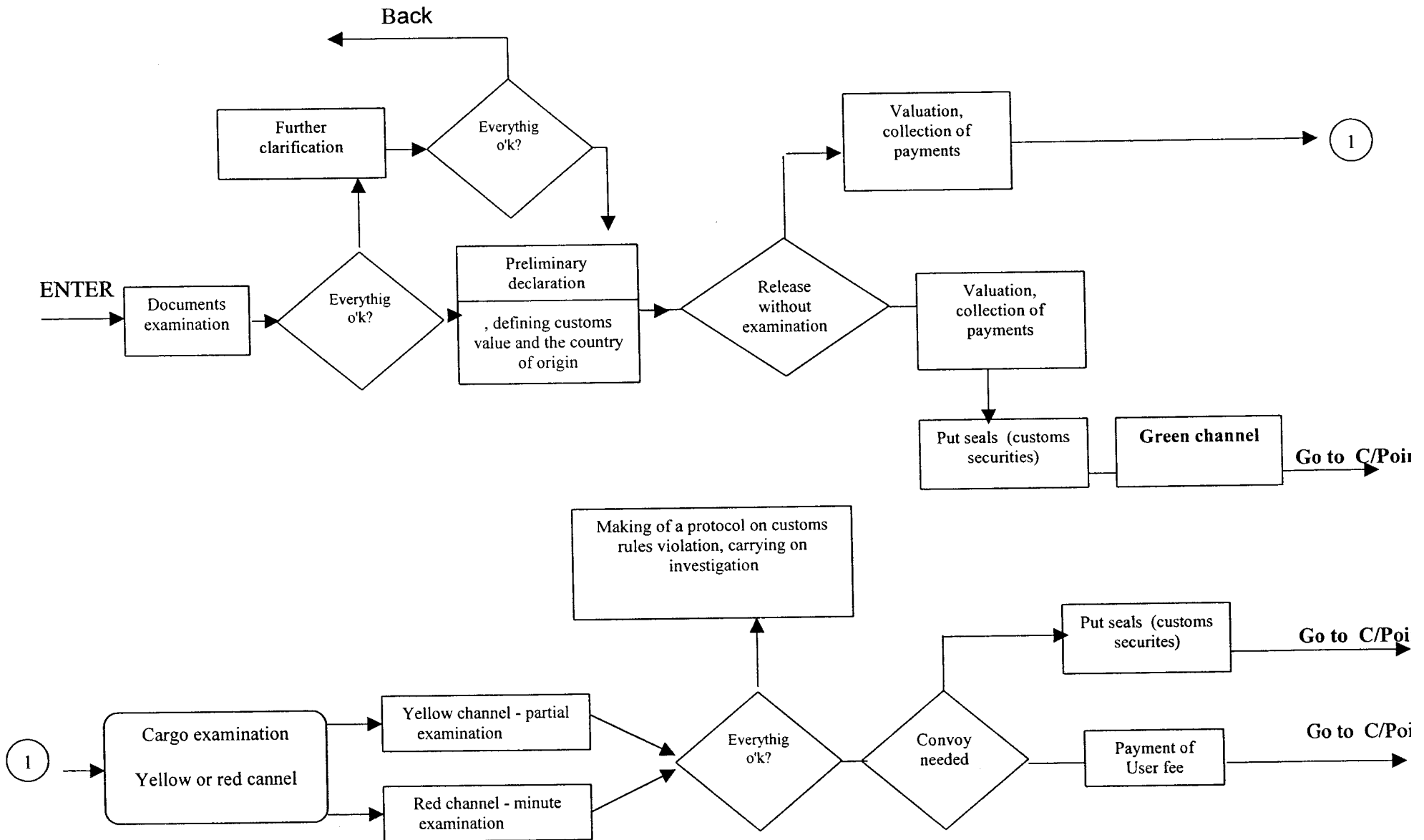
BLOCK EXP-3



BLOCK EXP-4



BLOCK EXP-5



Appendix seven

Proposal to USAID for the Networking of
Tax and Customs Sites Using Land Lines

Data Communication Infrastructure Project

The Ministry of State Revenue of

The Republic of Armenia

Presented to USAID

By the Ministry of State Revenue

Yerevan, Armenia

January 2000